

***Public Joint-Stock Company Federal
Hydro-Generating Company – RusHydro***

Auditor's Report
on Financial Statements
2016

Translation from Russian original



Auditor's Report

To the Shareholders of Public Joint-Stock Company Hydro-Generating Company – RusHydro:

Client

Public Joint-Stock Company Hydro-Generating Company – RusHydro (PJSC RusHydro)

State registration certificate with inclusion in the Unified State Register of Legal Entities No. 1042401810494 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Krasnoyarsk on 26 December 2004.

660017, Russian Federation, Krasnoyarsky region, Krasnoyarsk

Auditor

AO PricewaterhouseCoopers Audit (AO PwC Audit) located at: 125047, Russian Federation, Moscow, Butyrsky Val, 10.

State registration certificate No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1027700148431 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for the Moscow City on 22 August 2002.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

Major registration record number (ORNZ) in the register of auditors and audit organisations – 11603050547.

*AO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F: +7 (495) 967-6001, www.pwc.ru*

TRANSLATOR'S EXPLANATORY NOTE: This version of our report/the accompanying documents is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



Auditor's Report

To the Shareholders of Public Joint-Stock Company Hydro-Generating Company – RusHydro:

We have audited the attached financial statements of Public Joint-Stock Company Hydro-Generating Company – RusHydro (hereinafter – PJSC RusHydro) which comprise the balance sheet as of 31 December 2016, and statement of financial results, statement of changes in equity and statement of cash flows for the year ended 31 December 2016 and notes to the balance sheet and statement of financial results (hereinafter all the reports together are referred to as the “financial statements”).

PJSC RusHydro's responsibility for the financial statements

PJSC RusHydro's management is responsible for the preparation and fair presentation of these financial statements in accordance with the reporting rules established in the Russian Federation and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The auditor's responsibility

Our responsibility is to express an opinion as to whether the financial statements are fairly presented based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of PJSC RusHydro, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC RusHydro as of 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with the reporting rules established in the Russian Federation.



Auditor's Report

Emphasis of matter

Without modifying our opinion on the fairness of the financial statements we draw attention to Note 3.1.2 Long-term investments (balance sheet line 1170) to the financial statements which describes the reasons for non-revaluation of quoted financial investments in shares of PAO RAO ES of East, PAO Yakutskenergo and PAO Far East Energy Company at their current market values.

As of 31 December 2016 the amount of unrecognised decrease in the market value as compared to the carrying value of these investments is RUB 6,614 million, as of 31 December 2015 – RUB 5,047 million.

Director of AO PricewaterhouseCoopers Audit

A. S. Ivanov

30 March 2017

BALANCE SHEET

as at 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**
 Taxpayer identification number
 Type of activity **Electricity generation by hydroelectric power plants**
 Form of incorporation/form of ownership
Public joint-stock company/mixed Russian ownership with a federal ownership share
 Measurement unit: **RUB mln**
 Address: **Krasnoyarsk, the Krasnoyarsk Territory, Russia, 660017**

Form on OKUD
 Date (year, month, day)
 OKPO
 INN
 OKVED
 OKOPF/OKFC
 OKEI

CODES	
Form on OKUD	0710001
Date (year, month, day)	2016/12/31
OKPO	75782411
INN	2460066195
OKVED	35.11.2
OKOPF/OKFC	12247 / 41
OKEI	385

Note	Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5	6
	I. NON-CURRENT ASSETS				
	Intangible assets	1110	1,324	893	1,032
	Results of research and development	1120	1,077	1,091	843
3.1.1	Property, plant and equipment, incl.:	1150	409,109	392,723	378,027
	fixed assets	1151	372,514	344,986	321,645
	construction in process	1152	36,595	47,737	56,382
3.1.1	Income-bearing investments in tangible assets	1160	-	7,065	7,189
3.1.2	Financial investments, incl.:	1170	292,273	320,097	264,352
	investments in subsidiaries, associates and other entities	1171	264,587	267,664	230,313
	loans issued	1172	27,085	51,832	34,039
	promissory notes	1173	601	601	-
3.1.3	Other non-current assets	1190	4,703	3,287	3,538
	Total Section I	1100	708,486	725,156	654,981
	II. CURRENT ASSETS				
3.2.1	Inventories	1210	4,252	4,115	3,437
3.9	Value added tax on goods purchased	1220	51	40	105
3.2.2	Accounts receivable, incl.:	1230	149,614	129,291	144,565
	accounts receivable (payments expected later than 12 months after the reporting date), incl.:	1231	62,615	62,549	62,341
	buyers and customers	1231.1	178	976	409
	advances issued	1231.2	20,004	28,524	31,099
	promissory notes	1231.3	29,312	28,578	27,563
	loans issued	1231.4	11,258	3,447	1,503
	other debtors	1231.5	1,863	1,024	1,767
	accounts receivable (payments expected within 12 months after the reporting date), incl.:	1232	86,999	66,742	82,224
	buyers and customers	1232.1	7,120	6,741	5,840
	advances issued	1232.2	10,206	14,495	12,870
	promissory notes	1232.3	5,459	20,809	19,119
	loans issued	1232.4	30,792	12,925	26,384
	other debtors	1232.5	33,422	11,772	18,011
3.2.3	Financial investments (excl. cash equivalents), incl.:	1240	5,305	15,879	43,446
	bank deposits	1241	4,075	10,609	33,307
	loans issued	1242	1,230	5,270	10,139
3.2.4	Cash and cash equivalents	1250	40,954	18,139	9,032
	Other current assets	1260	11	11	14
	Total Section II	1200	200,187	167,475	200,599
	TOTAL	1600	908,673	892,631	855,580

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Note	Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5	6
	III. CAPITAL AND RESERVES				
3.3.1	Charter capital	1310	386,255	386,255	386,255
3.3.2	Revaluation of non-current assets	1340	52,705	52,928	53,111
3.3.3	Additional capital (excl. revaluation)	1350	58,424	58,424	58,424
3.3.4	Reserve capital	1360	11,278	9,776	8,240
	Retained earnings (loss), incl.:	1370	260,674	235,086	212,430
	undistributed profit of previous years	1371	218,797	205,064	181,701
	undistributed profit of the current year	1372	41,877	30,022	30,729
	Total Section III	1300	769,336	742,469	718,460
	IV. LONG-TERM LIABILITIES				
3.4.1	Borrowings and bank loans	1410	94,848	105,070	92,262
3.9	Deferred tax liabilities	1420	13,676	12,402	9,672
3.4.2	Other liabilities	1450	3,746	2,195	2,335
	Total Section IV	1400	112,270	119,667	104,269
	V. SHORT-TERM LIABILITIES				
3.5.1	Borrowings and bank loans	1510	14,025	18,940	21,915
3.5.2	Accounts payable, incl.:	1520	9,681	9,822	8,575
	suppliers and contractors	1521	4,190	5,492	5,295
	payables to employees	1522	24	669	823
	payables to state non-budgetary funds	1523	14	135	119
	taxes payable	1524	4,697	3,103	1,923
	dividends payable	1525	122	67	65
	payables in respect of shares issued	1526	33	-	-
	other creditors	1527	601	356	350
	Income of future periods	1530	73	70	75
3.5.3	Estimated liabilities	1540	2,447	601	1,405
	Other liabilities	1550	841	1,062	881
	Total Section V	1500	27,067	30,495	32,851
	TOTAL	1700	908,673	892,631	855,580

Chairman of Management Board – General Director

N. G. Shulginov

(clarification of signature)

Chief accountant

Y. GV. Medvedeva

(clarification of signature)

30 March 2017

STATEMENT OF FINANCIAL RESULTS

for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**
 Taxpayer identification number
 Type of activity **Electricity generation by hydroelectric power plants**
 Form of incorporation/form of ownership
Public joint-stock company/mixed Russian ownership with a federal ownership share
 Measurement unit: **RUB mln**

Form on OKUD
 Date (year, month, day)
 OKPO
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 OKEI

CODES	
Form on OKUD	0710002
Date (year, month, day)	2016/12/31
OKPO	75782411
INN	2460066195
OKVED	35.11.2
OKOPF/OKFC	12247 / 41
OKEI	385

Note	Narrative	Line code	Year ended 31 December 2016	Year ended 31 December 2015
1	2	3	4	5
3.7.1	Revenue	2110	115,033	107,099
3.7.2	Cost of sales	2120	(56,356)	(63,969)
	Gross profit	2100	58,677	43,130
	Profit from sales	2200	58,677	43,130
3.12.7	Income from participation in other companies	2310	9,481	809
	Interest income	2320	8,777	9,362
	Interest expense	2330	(7,592)	(8,251)
3.8	Other income	2340	23,754	15,005
3.8	Other expense	2350	(38,336)	(20,396)
	Profit before tax	2300	54,761	39,659
3.9	Current income tax, incl.:	2410	(11,188)	(6,814)
	permanent tax liabilities	2421	1,776	(1,902)
	Change in deferred tax liabilities	2430	(2,658)	(2,786)
	Change in deferred tax assets	2450	1,384	(152)
	Other	2460	(422)	115
	Net profit	2400	41,877	30,022
	REFERENCE			
	Gain or loss from other operations not included in the net profit of the period	2520	-	-
	Total financial result for the period	2500	41,877	30,022
3.11	Basic earnings per share, RR	2900	0,10842	0,07773

Chairman of Management Board – General Director _____

N. G. Shulginov
(clarification of signature)

Chief accountant _____

Y. G. Medvedeva
(clarification of signature)

30 March 2017

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**
 Taxpayer identification number
 Type of activity **Electricity generation by hydroelectric power plants**
 Form of incorporation/form of ownership
Public joint-stock company/mixed Russian ownership with a federal ownership share
 Measurement unit: **RUB mln**

Form on OKUD		Form on OKUD
Date (year, month, day)	2016/12/31	0710003
	OKPO	2016/12/31
	INN	75782411
	OKVED	2460066195
		35.11.2
	OKOPF/OKFC	12247 / 41
	OKEI	385

I. Changes in equity

Narrative	Line code	Share capital	Additional capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7
Equity as of 31 December 2014	3100	386,255	111,535	8,240	212,430	718,460
for 2015						
Increase of equity, including:	3210	-	-	-	30,022	30,022
net profit	3211	x	x	x	30,022	30,022
additional shares issue	3214	-	-	x	x	-
Decrease of equity, including:	3220	-	-	-	(6,013)	(6,013)
Dividends	3227	x	x	x	(6,013)	(6,013)
Other	3228	-	-	x	-	-
Additional capital change	3230	x	(183)	x	183	x
Reserve capital change	3240	x	x	1,536	(1,536)	x
Equity as of 31 December 2015	3200	386,255	111,352	9,776	235,086	742,469
for 2016						
Increase of equity, including:	3310	-	-	-	41,877	41,877
net profit	3311	x	x	x	41,877	41,877
additional shares issue	3314	-	-	x	x	-
Decrease of equity, including:	3320	-	-	-	(15,010)	(15,010)
Dividends	3327	x	x	x	(15,010)	(15,010)
Other	3328	-	-	x	-	-
Additional capital change	3330	x	(223)	x	223	x
Reserve capital change	3340	x	x	1,502	(1,502)	x
Equity as of 31 December 2016	3300	386,255	111,129	11,278	260,674	769,336

III. Net assets

Narrative	Line code	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1	2	3	4	5
Net assets	3600	769,399	742,536	718,529

Chairman of Management Board – General Director _____

N. G. Shulginov
(clarification of signature)

Chief accountant _____

Y. G. Medvedeva
(clarification of signature)

30 March 2017

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STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

Organisation **Public joint stock company Federal Hydro-Generating Company - RusHydro (PAO RusHydro)**
 Taxpayer identification number
 Type of activity **Electricity generation by hydroelectric power plants**
 Form of incorporation/form of ownership
Public joint-stock company/mixed Russian ownership with a federal ownership share
 Measurement unit: **RUB mln**

CODES	
Form on OKUD	0710004
Date (year, month, day)	2016/12/31
OKPO	75782411
INN	2460066195
OKVED	35.11.2
OKOPF/OKFC	12247 / 41
OKEI	385

Note	Narrative	Line code	For 2016	For 2015
1	2	3	4	5
	Cash flows from operating activities			
	Receipts, including:	4110	118,301	108,833
	sales of products, goods, work and services	4111	113,249	105,028
	lease payments, license payments, royalties, commissions and other payments	4112	843	1,099
3.2.4	other receipts	4119	4,209	2,706
	Payments including:	4120	(59,326)	(64,139)
	to suppliers (contractors) – raw materials, works and services	4121	(22,137)	(29,796)
	wages and salaries	4122	(6,471)	(7,429)
	interest on debt liabilities	4123	(7,788)	(7,484)
	corporate income tax	4124	(10,864)	(6,202)
3.2.4	other payments	4129	(12,066)	(13,228)
	Net cash flows from operating activities	4100	58,975	44,694
	Cash flows from investing activities			
	Receipts, including:	4210	49,554	48,222
	sale of non-current assets (except for investments)	4211	9,382	150
	sale of shares of other organisations (ownership interest)	4212	44	11
	from return of loans, sales of debt securities (chose of possession of cash from third parties)	4213	22,459	14,086
	dividends, interests from long term financial investments and receipts from participation in other entities	4214	9,091	11,244
3.2.4	other receipts	4219	8,578	22,731
	Payments, including:	4220	(58,435)	(84,704)
	purchase, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(20,580)	(28,969)
	related to purchase of shares of other organisations (ownership interest)	4222	(23,951)	(35,317)
	purchase of debt securities (chose of possession of cash from third parties), loans issued	4223	(10,893)	(17,739)
	borrowing costs included in the cost of the investment assets	4224	(3,011)	(2,679)
	Net cash flows from investing activities	4200	(8,881)	(36,482)

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Note	Narrative	Line code	For 2016	For 2015
1	2	3	4	5
	Cash flows from financing activities			
	Receipts, including:	4310	15,750	27,034
	borrowings and bank loans	4311	719	2,037
	issue of shares, increase in ownership interest	4313	33	-
	issue of bonds, promissory notes and other debt securities, etc.	4314	14,998	24,997
	Payments, including:	4320	(42,934)	(26,061)
	dividends and other distributions to owners	4322	(14,977)	(5,964)
	redemption (buyback) of promissory notes and other debt securities, loan repayment	4323	(27,949)	(20,067)
3.2.4	other payments	4329	(8)	(30)
	Net cash flows from financing activities	4300	(27,184)	973
	Net cash flows for the reporting period	4400	22,910	9,185
3.2.4	Cash and cash equivalents at the beginning of the reporting period	4450	18,139	9,032
3.2.4	Cash and cash equivalents at the end of the reporting period	4500	40,954	18,139
	Foreign exchange rate difference	4490	(95)	(78)

Chairman of Management Board – General Director

N. G. Shulginov
(clarification of signature)

Chief accountant

Y. G. Medvedeva
(clarification of signature)

30 March 2017

Explanatory Notes to the 2016 balance sheet and statement of financial results

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I. General information

1.1 Information about the Company

Principal activities of public joint stock company Federal Hydro Generating Company - RusHydro (PAO RusHydro, hereinafter - the Company) are the generation and sale of electricity (power). The Russian Government is the Company's major shareholder.

The Company's registered address is: 43 Dubrovinskogo str., bld. 1, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation, 660017. The Company's postal address: 7, Malaya Dmitrovka str., Moscow, Russian Federation, 127006.

As of 31 December 2016 the Company employed 5,499 people (as of 31 December 2015 – 5,635 people).

The Company's shares are traded on OAO MICEX-RTS stock exchange (<http://moex.com>). American depository receipts, each of which corresponds to 100 ordinary shares of the Company are traded on the Main Market of London Stock Exchange and over-the-counter market of the USA.

As of 31 December 2016 the ownership share of the Russian Federation in the Company's share capital amounted to 66,84%.

As of 31 December 2016 the Company has 19 branches registered in the Russian Federation, including: branch Bureyskaya GES, branch Volzhskaya GES, branch Votkinskaya GES, Dagestan branch, branch Zhigulevskaya GES, branch Zagorskaya GAES, branch Zeiskaya GES, Kabardino-Balkarsky branch, branch Kamskaya GES, Karachaevo-Cherkessky branch, branch Cascade of Verkhne-Volzhsky GES, branch Cascade of Kuban GES, branch Corporate Energy University, branch Nizhegorodskaya GES, branch Novosibirskaya GES, branch Saratovskaya GES, branch Sayano-Shushenskaya GES named after P.S. Neporozhny, Severo-Osetinsky branch, branch Cheboksarskaya GES.

Membership of the Company's Board of directors as of 31 December 2016 is as follows:

- Trutnev Yury Petrovich, Chairman of the Board of Directors, Deputy Prime Minister - Plenipotentiary Representative of RF President in the Far Eastern Federal District;
- Ivanov Sergey Nikolaevich, Deputy chairman of the Board of Directors, Managing director of OAO Energetic Russian Company;
- Avetisyan Artem Davidovich, head of "New business" stream of autonomous non-profit organization "Agency of strategic initiatives for promotion of new projects";
- Bystrov Maxim Sergeevich, Chairman of the Management Board NP Market Council responsible for organization of effective system of energy power and capacity wholesale and retail;
- Grachev Pavel Sergeevich, President, PAO Polyus Zoloto;
- Kravchenko Vyacheslav Mikhailovich, Deputy Minister of Energy of the Russian Federation;
- Pivovarov Vyacheslav Victorovich, Chief Executive Officer, LLC Altera Capital;
- Podguzov Nikolay Radievich, Deputy Minister of Economic Development of Russian Federation;
- Rogalev Nikolay Dmitrievich, rector of the Federal State Budget Educational Institution of Higher Education "National Research University "MEI";
- Chekunov Aleksey Olegovich, CEO of AO "Fund of development of Far East and Baikal region";
- Shishin Sergey Vladimirovich, Senior Vice-President, PJSC VTB Bank;
- Shishkin Andrey Nikolaevich, Vice President for power and localisation, OJSC Rosneft;
- Shulginov Nikolay Grigoryevich, Chairman of Management Board, General Director, PAO RusHydro.

According to the decision made by the Company's general meeting of shareholders held on 27 June 2016 (Minutes No 15) Grachev Pavel Sergeevich, Podguzov Nikolay Radievich, Rogalev Nikolay Dmitrievich, Chekunov Alexey Olegovich, Shulginov Nikolay Grigoryevich were elected

to the Board of Directors; the powers of Dod Evgeny Vyacheslavovich, Zimin Victor Mikhaylovich, Kalanda Larisa Vyacheslavovna, Morozov Denis Stanislavovich and Osipov Alexander Mikhailovich were terminated.

As of 31 December 2016 the Company's Management Board includes:

- Shulginov Nikolay Grigoryevich, Chairman of the Management Board, General director,
- Bogush Boris Borisovich, First Deputy General Director, Chief engineer,
- Kazachenkov Andrey Valentinovich, First Deputy General Director,
- Kirov Sergey Anatolyevich, First Deputy General Director,
- Rizhinashvili George Ilyich, First Deputy General Director,
- .

There were following changes in Management Council during 2016 year:

- according to the decision made by the Company's Board of Directors held on 10.12.2015 (minutes № 228) the powers of Tokarev Vladimir Alexandrovich were terminated since 11.01.2016,
- according to the decision made by the Company's Board of Directors held on 25.02.2016 (minutes № 232) Kazachenkov Andrey Valentinovich was elected to the Management Council.
- As of 31 December 2016 members of the Company's Internal Audit Commission included:
 - Anninkova Natalia Nikolaevna, First deputy of General Director on economics and finance OJSC "Stroitelnoe upravlenie №308",
 - Bogashov Aleksandr Evgenyevich, head of department at the Russian Energy Ministry,,
 - Kant Mandal Denis Rishievich, Acting Head of department at the Federal Property Management Agency,
 - Repin Igor Nikolaevich, Deputy Executive Director, Investor protection association,
 - Hovorov Vladimir Vasilyevich, Department Leading Expert in the Russian Ministry of Economic Development.

According to the decision made by the Company's annual general meeting of shareholders held on 27 June 2016 (Minutes No 15) Bogashov Aleksandr Evgenyevich was elected to the Internal Audit Commission; the powers of Kharin Andrey Nikolaevich were terminated.

1.2 The Company's operating environment

The Russian economy displays certain characteristics of an emerging market. It is particularly sensitive to oil and gas price fluctuations. The legal, tax and customs frameworks continue to develop and are subject varying interpretation.

Continuing politic tensions and international sanctions negatively influenced on Russian economy at 2016 year. Mentioned factors contributed to economy downturn that is characterized with decrease of gross domestic product. Financial markets are still characterized with lack of stability, frequent and considerable price changes and increase of trade operations spreads.

Such economic environment has considerable influence on Company's operations and financial position. Future economic and regulatory situation, internal and external business environment are hard to forecast and may differ from Company management's current expectations.

Developing capacity and power wholesale and retail markets possess higher level of risks than developed markets of other products and services.

The Company's risk management policy specifies the continuous efforts to identify risks, assess them and control and also develop and implement actions for addressing the risks, business continuity management in accordance with international and national standards of risk management (COSO ERM 2004, ISO 31000, GOST R ISO 31000-2010, etc.), Code of corporate governance Central Bank of RF, methodological recommendations of the Federal Property Management Agency and the Ministry of Finance of the Russian Federation in the field of risk management and internal control.

Financial risks

Financial risk includes market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk.

Information about the Company's exposure to financial risks, their reasons and risk management tools is presented in paragraph 3.15 of the Explanatory Notes.

Legal risks

The reasons for legal risks are associated with potential changes in legal and regulatory base including currency and customs regulations, tax legislation and others.

Legal risks in domestic market related to regulation of electricity generation and its sale/purchase, which represent the Company's principal activities, can significantly impact the Company's position by decreasing its net profit.

Legal risks in external market related to currency and customs regulation are insignificant due to insignificant volume of foreign trade transactions the Company participates in, which are managed through legal support and control of these transactions and liability insurance.

To manage the industry risks the Company actively participates as expert in development of energy legislation made by Ministry of Energy of Russian Federation, NP "Market council" and Federal Antimonopoly Service; monitors legislation and makes amendments in the regulatory base.

Country and regional risks

The reasons for country and regional risks are associated with political and economic situation, the geographic features of the country or the region where the entity operates and (or) is registered as a taxpayer.

Exposure to country risk may be indirectly assessed by credit rating with some assumptions (less political risks for business). Due to external factors such as oil price and Rouble currency rate decrease rating of Russia as for the end of 2014 was reduced from BBB at stable forecast to BB+ at negative forecast according to international rating agency Standard & Poor's which is negative factor that is connected with anti-Russian sanctions. The country risk level may differ depending on the continuity or termination of this policy.

In 2016, the credit rating of Russia under the version of the international rating agency Standard & Poor's remains at the level of BB +, while the forecast has been revised from negative to stable. According to analysts, external risks for the Russian Federation decreased, the Russian economy adapts to low world prices for raw materials.

Also in 2016 international rating agency Standard & Poor's confirmed Company's long-term credit rating at BB level, but changed forecast from stable to positive.

At the moment investor's' comprehension of the country risks reduces the net volume of foreign investment in Russia and has a negative influence on the Russian economy. As well as Russia produces and exports large amounts of gas and oil, the Russian economy is especially vulnerable to the changes of international prices of energy resources; the reduction of gas and oil prices significantly affects the Russian economy development. These events may restrict the access of the Company to the capital and have an adverse impact on consumer purchasing power.

In the crisis environment experienced by the financial market and reduction of manufacturing output there is a risk of decrease in electricity demand that may result in reduction of sales and decrease in the Company's revenue and also a risk of increase in accounts receivable due to non-payments by the consumers of electricity.

The management believes that it has been taking all necessary measures to mitigate the impact of these events on its activities: optimization of leverage, optimisation of the obtained borrowed funds, increase turnover of current assets, assessment of the buyers' solvency, diversification of resources use and others.

Due to enhancement of the state control over energy industry the Company pays considerable attention to transparency and confidence of control procedures relating to budget funds

expenditure within the Company's and subsidiaries' investment programmes and also develops and improves the corporate internal control system and risk management. The company takes the required steps to prevent negative influence of the above risks on its operations.

The Russian regions where the Company performs its operations are characterised by peaceful political situation. Probability of war conflicts, strikes, introduction of the state of emergency in these regions is low except for entities located in North-Caucasus Federal District.

However, changes in the Company's business environment in Russia and in the regions of the Company's presence, the nature and frequency of such changes and related risks are hard to predict and so are their effects on the Company's operations in the future. Such risks are largely beyond the Company's control due to their global scale. If the situation is destabilised in Russia or in any Russian regions, the Company will implement crisis management strategies to minimise the risk of the negative effect of the situation on the Company to the fullest extent possible.

To manage the risks the Company is implementing a complex action plan to enhance safety of the Company's facilities under which the existing plan on ensuring safety at the power plants, including those under construction is amended.

Reputation risks

Reputation risks are associated with a decrease in the number of an entity's customers as a result of negative perception of the quality of products, works, services sold, the ability to meet the deadlines for products delivery, work performance, etc.

The Company assesses its exposure to these risks as low due to the fact that the Company sells electricity and capacity in the wholesale market and has high and sustainable reputation in the market.

To manage these risks the Company analyses key indicators of reputation risks based on the forecast of changes in the share of positive references in mass media, control over compliance with production and market discipline, cooperating actively with all stakeholders to maintain high reputation. The company organizes public events jointly with interested parties; special events for mass media, analytics and investors. Also, the Company regularly updates information on official Internet sources and prepares official comments on key activities questions.

Besides the Company takes measures to prevent corruption. Anti-corruption policy, the code of conduct, regulations on the procedure of the employer's notification about inducement of personnel to unlawful acts, gifts, conflict of interests arrangement procedures etc. are adopted by the Company. The "Trust line" acts on an on-going basis.

The Company works closely with Ministry of energy, Federal tax service, Federal financial monitoring service within the anti-corruption and control of fraud activities.

Other risks

To manage the risks the Company focuses on other operating risks including risk of capital construction, industry risk, production risk, risk of hydraulicity, risks associated with compliance with legislation on labour safety, risks of industrial safety, environmental risks and risks associated with the third parties' activities and others.

The reasons for these risks are associated with the industry-specific factors that are relevant to the operations, condition of property, plant and equipment. There is an exposure to these risks, degree of possibility of events is at statistically average or low levels. On a permanent basis, the Company implements actions for monitoring the risks and decreasing the probability of their occurrence and severity of the potential adverse consequences including assignment of responsibility, control, diversification and insurance.

II. Accounting policies

These statutory financial statements have been prepared on the basis of the following accounting policies:

2.1 Basis of presentation

The Company's statutory financial statements are prepared in accordance with the accounting and reporting rules currently effective in the Russian Federation provided for by the Federal Law "On Accounting" and "Regulation on Accounting and Reporting in the Russian Federation" as well as other accounting regulations approved by the Russian Ministry of Finance.

Assets are valued at actual costs, excluding fixed assets of subsidiaries and dependent companies (hereinafter referred to as "SDCs") received in 2008 in connection with the merger of SDCs into the Company; Financial investments, for which the current market value is determined; Assets, for which, in accordance with established procedure, reserves were created to reduce their value (impairment).

2.2 Assets and liabilities denominated in foreign currency

Business transactions in foreign currencies were recorded using the official Rouble exchange rate as of the date of the relevant transaction. Cash on hand and in bank accounts (bank deposits), cash and payment documents, accounts receivable (except for advances received and issued and prepayments) including loans receivable and payable, denominated in foreign currencies are recorded in the financial statements in the amounts calculated based on the official currency exchange rates effective as of the reporting date. The exchange rates were as follows: USD 1 = RUB 60.6569 as of 31 December 2016 (31 December 2015: USD 1 = RUB 72.8827, 31 December 2014: USD 1 = 56.2584), EUR 1 = RUB 63.8111 as of 31 December 2016 (31 December 2015: EUR 1 = RUB 79.6972, 31 December 2014: EUR 1 = RUB 68.3427).

Exchange differences arising during the year from translation (including those as of the reporting date) of foreign currency-denominated assets and liabilities payable in foreign currencies or Russian roubles were reported in the statement of financial results as other income or expenses.

2.3 Accounting for assets and liabilities

In the balance sheet, investments, accounts receivable and accounts payable, including bank credits and estimated liabilities, are treated as short-term if the term of their circulation (maturity) does not exceed 12 months after the reporting date. Other assets and liabilities are recognised as long-term.

Interest on loans issued and other investments are recorded in the balance sheet line 1230 "Accounts receivable"; interest on bank credits and loans received are recorded in the balance sheet line 1510 "Borrowings".

Advances to the suppliers of equipment and capital construction contractors are recognised in line 1230 "Accounts receivable".

Advances issued and received are recorded in the balance sheet including VAT. VAT on advances issued and received is recognised on a gross basis in the balance sheet line 1260 "Other current assets", 1450 "Other liabilities" and 1550 "Other liabilities", respectively.

Deferred tax asset and deferred tax liability are recognized on the balance sheet on a net basis.

2.4 Property, plant and equipment, construction-in-progress and income-bearing investments in tangible assets

Property, plant and equipment are accounted for in accordance with the Russian Accounting Regulation "Accounting for property, plant and equipment" (RAR 6/01).

Property, plant and equipment include land, buildings, facilities, machinery, equipment, transport vehicles and other assets whose useful lives are over 12 months.

Property, plant and equipment are recognized at their historical cost equal to actual acquisition (construction, production) cost. At the same time, fixed assets received in 2008 in connection with the merger of subsidiaries and affiliates (hereinafter - "SDCs") to the Company, are accounted for at their market value determined by an independent appraiser.

The acquired property, plant and equipment with historical cost of below RUB 40 thousand per unit which were initially recognised after 1 January 2011 are accounted for within inventories; property, plant and equipment which were initially recognised before 1 January 2011 were accounted for within inventories, if their historical cost did not exceed RUB 20 thousand per unit.

Real property assets which have been constructed, put into operation and are actually used but the title to which was not registered under the procedure established by the effective legislation are accounted for within property, plant and equipment in a separate line.

Property, plant and equipment are recognised on the balance sheet at cost less depreciation accumulated from the date of their independent valuation for merging subsidiaries and associates (hereinafter - SAC) into the Company in 2008 or over the whole period of their operation, if they were put into operation after merging SAC into the Company.

The Company does not perform the revaluation of property, plant and equipment items.

Useful lives of the acquired property, plant and equipment including those which had been in operation before the acquisition, received as a contribution to the share capital or under legal succession in connection with restructuring, are established by the review committee for commissioning of a facility based on the Classification of the Company's property, plant and equipment when PP&E item is initially recognised. Useful lives of assets which were in use in prior periods are determined with consideration to the number of years (months) they were used by the previous owner.

The adopted standard useful lives by groups of property, plant and equipment in accordance with the Classification of the Company's property, plant and equipment are presented below.

Property, plant and equipment group	Useful lives of property, plant and equipment (years) on the balance sheet
Facilities and transmission equipment	3 to 100
Machinery and equipment	1 to 40
Buildings	7 to 75
Other	1 to 20

Depreciation of property, plant and equipment is accrued on a straight-line basis proceeding from their historical values and depreciation rates calculated based on their useful lives.

Depreciation is not accrued on:

- land plots and natural resources;
- fully depreciated assets that are still on the balance sheet.
- assets that are temporarily shutdown for more than three months and during the restoration period which exceeds twelve months.

Gains and losses on disposal of property, plant and equipment are recorded in the statement of financial results within other income and expenses.

Construction-in-progress includes real estate assets under construction, which have not been put into operation, equipment to be installed and other investments in non-current assets which are not included in PP&E. Equipment which does not require installation, stored in the warehouse and intended for assets under construction are recorded within construction-in-progress in a separate line.

These items are recognised in the balance sheet line 1150 "Property, plant and equipment".

Interest on borrowings raised for the purposes directly related to acquisition, construction and/or manufacture of investment assets, accrued prior to initial recognition of the assets is included in their historical cost; that accrued after the initial recognition of the assets are recognised in the statement of financial results within other expenses.

Interest on borrowings raised for the purposes not related to acquisition, construction and/or manufacture of investment assets, but actually used to purchase the investment assets are included in the cost of investment assets in proportion to the share of the above borrowings in total amount of borrowings raised for the purposes not related to acquisition, construction, manufacture of investment assets.

Income-bearing investments in tangible assets represent PP&E items acquired for leasing out to generate income.

These assets are recognised at their historical cost determined under the procedure used for general PP&E items.

Leased PP&E items are recognised in off-balance-sheet accounts at cost specified in the lease agreement/determined based on the acceptance certificate. If the lease agreement and acceptance certificate do not specify the cost of these assets, property, plant and equipment are recorded in the off-balance-sheet accounts at the following values:

- land plots having the cadastral value - at their cadastral value;
- other PP&E items - in the amount of lease payments inclusive of VAT under lease agreement including the repurchase price of the leasing item.

2.5 Investments

Investments are accounted for in accordance with the Russian Accounting Regulation "Accounting for investments" (RAR 19/02).

Investments include:

- contributions to the share capital of other entities (including subsidiaries);
- debt securities (including bonds, promissory notes);
- deposits in credit institutions except for short-term deposits classified as cash equivalents (paragraph 2.9 of the Explanatory Notes);
- interest-bearing loans issued to other entities;
- government and municipal securities and other investments.

Investments are initially recognised at their actual cost of acquisition.

The Company's actual costs to purchase investments represent the historical cost of investments purchased at a charge.

The historical cost of investments in the Company's share capital is presented by their monetary value agreed by the Company's founders, if not specified otherwise by the Russian legislation.

Investments, the current market value of which can be determined under the established procedure, are recognised on the balance sheet at their current market value as of the end of each reporting period (on a quarterly basis). The difference between the value of these investments as of the current reporting date and their prior value is recorded within other income and expenses.

At the same time, contributions to the charter capitals of SDCs (irrespective of the availability of current exchange quotations on them) refer to financial investments for which revaluation at current market value is not made.

Current market value of the securities which are traded by the institutors of trading is determined at market prices established at OAO MICEX-RTS (<http://moex.com>).

Investments for which no current market value is determinable are recorded on the balance sheet at their carrying (book) value, except for investments for which there are indications that the decline in their value (impairment) is significant and non-temporary as of the reporting date.

Investments are tested for their impairment once a year as of 31 December of the reporting year, if there are indications of impairment.

The Company accrues the impairment provision for the amount of difference between carrying (book) value and estimated value of the investments with regard to investments for which significant and constant impairment indicators are proved by impairment test. The estimated value of investments is determined based on the data about net assets, revenue, composition of expenses, schedule of projects financing and other factors.

Despite of the fact that well-grounded judgements are applied to determine the estimated value of investments, there are unavoidable limitations as in any valuation technique. Therefore, the estimated value represents the Company management's best estimate based on all the information available as of the reporting date. Future events will also have impact on determining the estimated value and impact of such events can be significant for the Company's financial statements.

Difference between the historical cost and nominal value of debt securities for which current market value is not determinable, is recorded on a straight-line basis during the period of their circulation and is recognised in the Company's financial results within other income (expenses). When investments for which current market value is not determinable are disposed, they are carried at book value of each unit of these investments except for issuance securities (shares, bonds) which are disposed under FIFO; when investments for which current market value is determinable under the established procedure are disposed - based on the latest valuation.

The Company discloses information about measurement at discounted value, the amount of the discounted value of debt securities of other related parties and loans issued to them.

Income and expenses associated with investments are reported within other income or expenses. Interest on loans issued and other income from investments are recognised in the balance sheet line 1230 "Accounts receivable".

2.6 Inventories

Inventories are accounted for in accordance with the Russian Accounting Regulation "Accounting for inventories" (RAR 5/01).

Inventories are accounted for at their actual cost of acquisition (production).

If market value of inventories as of the end of the reporting year is below their historical cost including due to on-going (long-term) price reduction, Company makes a provision in the amount of inventory impairment which is charged against increase in other expenses. Such inventories are recognised on the balance sheet net of the inventories' impairment provision.

The average cost method is applied to determine the material expenses when writing-off inventories used to produce goods (provide services).

2.7 Expenses of future periods

Expenses incurred by the Company in the reporting period but related to future reporting periods (payments under voluntary and mandatory insurance of property and employees, one-off payments to purchase licenses and other expenses) are recorded as expenses of future periods. These expenses are written-off for the purpose intended on a straight-line basis during the periods which they relate to.

Expenses of future periods to be written-off during the period exceeding twelve months are recognised on the balance sheet as non-current assets in line 1190 "Other non-current assets"; those to be written-off during twelve months - in line 1210 "Inventories".

2.8 Accounts receivable

Trade receivables are accounted for in the amount of services provided, works performed, good dispatched at justified prices and established tariffs. Settlements with other debtors are recognised for accounting and reporting purposes based on the contractual prices. Accounts receivable include non-interest-bearing promissory notes and non-interest-bearing loans issued.

Accounts receivable which are overdue or unlikely to be repaid by the contractual deadlines and are not secured by guarantees, pledges or otherwise, are recognised on the balance sheet net of

doubtful debt provision. The provision is based on the conservative assessment made by the Company's management with regard to the portion of receivables which is unlikely to be repaid.

Doubtful debts provision is made on a quarterly basis as of the end of the respective period. The provision amount is separately determined based on the unbiased information about solvency of the specific debtor and assessment of probability of receivables repayment in full or partially.

Accrual (release) of doubtful debts provision increases other expenses (income).

Uncollectable receivables are written-off when recognized as such. These receivables are recorded in off-balance-sheet accounts over five years after the debt is written off for monitoring whether there is a possibility of their collection in case of any changes in the debtor's property status.

2.9 Cash equivalents and presentation of cash flows in the statement of cash flows

Cash equivalents comprise current highly liquid investments, which are readily convertible into a predictable amount of cash and are exposed to an insignificant risk of changes in value.

The Company recognises short-term bank deposits with a maturity of up to three months (not longer than 91 days) within cash equivalents if they are treated as funds used for settlements and repayment of liabilities, not intended for investment and other purposes.

The Company's cash flows which cannot be clearly attributed to cash flows from operating, investing or financing activities are included in the cash flows from operating activities in the statement of cash flows. Such cash flows include receipts and payments related to financial instruments of forward deals.

The following items are presented on a net basis in the statement of cash flows:

- indirect taxes within receipts from buyers and customers and payments to suppliers and contractors;
- cash flows used for investing activities and received on repayment of short-term bank deposits (with a maturity of more than three months) within the same reporting period.

Cash receipts and payments do not include cash flows changing the structure of cash equivalents, but not changing their total amount.

2.10 Share capital, additional and reserve capital

The Company's share capital has been recorded in the amount of the nominal value of ordinary shares purchased by shareholders. The share capital is equal to the amount specified in the Company's Charter.

When the share capital is increased through placement of additional shares, transactions associated with the formation of the share capital are accounted for when the respective changes made in the Company's constituent documents are registered.

The Company's additional capital includes share premium resulted from placement of the Company's shares at price exceeding their nominal value and total of additional capital of subsidiaries, associates merged into the Company during the 2008 reorganisation.

In accordance with legislation the Company forms a reserve fund in the amount of 5% of the share capital. The amount of mandatory annual deductions to reserve fund is 5% of the Company's net profit until it reaches the specified level.

2.11 Loans and bank credits received

Loans and bank credits are accounted for in accordance with the Russian Accounting Regulation "Accounting for loans and bank credits" (RAR 15/2008).

Loans payable are stated inclusive of interest payable as of the end of the reporting period according to the loan agreements.

Interest is accrued on a monthly basis at the end of each reporting period. If a lender provides for interest calculation attributable to different reporting periods, the amount of interest shall be allocated and included in the amount payable separately for each month.

Additional expenses incurred in connection with borrowings are charged to expenses of future periods with subsequent straight-line inclusion in other expenses over the repayment period.

2.12 Estimated liabilities, contingent liabilities and contingent assets

Estimated liabilities

The Company recognises estimated liability, which meets the recognition criteria established in the Russian Accounting Regulation "Estimated liabilities, contingent liabilities and contingent assets" (RAR 8/2010).

The Company recognises an estimated liability:

- for earned but unused employee vacations, which is determined as of the end of the reporting year with reference to the number of unused vacation days of each employee at the reporting date and employee's average salary, inclusive of insurance contributions;
- on payment of bonuses for the results of work for the fourth quarter and year, the value of which at the end of the reporting year is determined based on the forecast of performance of internal corporate key performance indicators, taking into account insurance premiums;
- in other cases provided by RAR 8/2010.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recorded on the balance sheet, but instead are disclosed in the Explanatory Notes to the balance sheet and statement of financial results.

Contingent liability (contingent asset) arises as a result of past business events when existence of a liability (asset) of the Company at the reporting date depends on occurrence (non-occurrence) of future uncertain events, which are beyond the Company's control.

Contingent liability is disclosed in the Explanatory Notes to financial statements, except where the likelihood of a decrease in economic benefits associated therewith is remote. Contingent asset is disclosed in the Explanatory Notes when the inflows associated therewith are probable. There is a need to disclose its estimated amount or a range of estimated amounts, if such values are identifiable.

2.13 Revenue recognition

Revenue from sales of products (provision of services) is recognized on an accrual basis (as the products/services are delivered/provided and relevant settlement documents presented to buyers). Revenue is presented net of value added tax.

Other revenues of the Company include:

- proceeds from sale of property, plant and equipment, investments and other assets;
- interest received in connection with providing the Company's cash for use, interest for the bank's use of cash sitting on the Company's bank accounts in the bank, interest for the commodity credit and interest on the acquired interest-bearing notes of the third parties - in accordance with interest provision in the note when presenting it for payment. The Company recognises the above income in the statement of financial results in line 2320 "Interest income";
- income from participation in share capital of other entities (dividends) is recognised by Company when announced and included in the statement of financial results in line 2310 "Income from participation in other entities";
- income from transactions with derivatives when the respective trading positions are closed;
- fines, penalties and interest for breaching contractual terms;
- prior year profit identified in the reporting year (considering the requirements of the Russian Accounting Regulation "Correction of errors in accounting and reporting" (RAR 22/2010);
- other proceeds (income) according to the Russian Accounting Regulation "Income of an organisation" (RAR 9/99) (including income in the form of insurance indemnity).

2.14 Recognition of expenses

Accounting for expenses is regulated by the Russian Accounting Regulation "Expenses of an organisation" (RAR 10/99) under which the Company's expenses are divided into general expenses and other expenses.

Administrative expenses are written-off against the cost of goods produced (services provided).

General expenses are recognised in the reporting period wherein they were incurred irrespective of the actual closure of accounts payable.

Expenses shall be accounted for irrespective of the intention to generate revenue or other income and their form.

Other expenses include:

- expenses incurred in disposal and other write-off of property, plant and equipment, investments and other assets;
- interest paid by the Company for provided cash (bank credit, loans); the Company recognises these expenses in the statement of financial results in line 2330 "Interest expense";
- expenses incurred in payment of services provided by credit institutions;
- doubtful debts provision calculated on the basis of the reporting period results in accordance with the Company's accounting policies (see paragraph 2.8 of the Explanatory Notes);
- expenses from transactions with derivatives when the respective trading positions are closed;
- fines, penalties and interest for breaching contractual terms, compensation of losses caused by the Company;
- prior year losses identified in the reporting period (considering the requirements of the Russian Accounting Regulation "Correction of errors in accounting and reporting" (RAR 22/2010);
- charity and social security;
- expenses incurred as a result of extraordinary events in business operations (natural disaster, fire, accident, etc.)
- other expenses according to RAR 10/99.

2.15 Changes in the accounting policies

There are no significant changes in the Company's accounting policies for 2016 and 2017 based on the Russian Accounting Regulation "Accounting policies of an organisation" (RAR 1/2008).

III. Disclosure of material indicators

3.1 Non-current assets (Section I of the balance sheet)

3.1.1 Property, plant and equipment (line 1151 of the balance sheet), construction-in-progress (line 1152 of the balance sheet), income-bearing investments in tangible assets (line 1160 of the balance sheet)

PP&E group	Net book value		
	31 December 2016	31 December 2015	31 December 2014
Line 1151 Property, plant and equipment, including:			
Facilities and transmission equipment	192,240	189,819	188,410
Machinery and equipment	140,215	120,251	98,216
Buildings	39,539	34,274	34,457
Motor vehicles	6	23	56
Production and maintenance tools	293	412	281
Land plots	4	4	3
Other types of property, plant and equipment	217	203	222
Total line 1151 "Property, plant and equipment"	372,514	344,986	321,645
Line 1160 Income-bearing investments in tangible assets, including:			
Facilities and transmission equipment	-	7,065	7,189
Total in line 1160 "Income-bearing investments in tangible assets"	-	7,065	7,189

As of 31 December 2016 there are no income-bearing investments in tangible assets (as of 31 December 2015 – RUB 7,065 million, as of 31 December 2014 – RUB 7,189 million). In November 2016, the complex of dams of the Angarsk cascade in the Irkutsk region was sold under the contract of sale of OOO "Telmamskaya HPP" at a price 9, 280 mln RUB without VAT.

PAO RusHydro
Explanatory Notes to the 2016 Balance sheet and Statement of Financial Results
(in millions of Russian Roubles unless otherwise stated)

Availability and movement of property, plant and equipment and income-bearing tangible assets

Narrative	Period	At the beginning of the year		Additions*	Changes for the period			At the end of the year	
		Cost	Accumulated depreciation		Disposals		Depreciation accrued*	Cost	Accumulated depreciation
					Cost	Accumulated depreciation			
Property, plant and equipment including:	2015	389,140	(67,495)	42,761	(3,401)	1,414	(17,433)	428,500	(83,514)
	2016	428,500	(83,514)	43,735	(1,291)	890	(15,806)	470,944	(98,430)
Facilities and transmission equipment	2015	213,984	(25,574)	7,633	(2,260)	367	(4,331)	219,357	(29,538)
	2016	219,357	(29,538)	6,783	(63)	11	(4,310)	226,077	(33,837)
Machinery and equipment	2015	135,135	(36,919)	34,270	(997)	947	(12,185)	168,408	(48,157)
	2016	168,408	(48,157)	30,786	(1,081)	824	(10,565)	198,113	(57,898)
Buildings	2015	38,672	(4,215)	574	(12)	4	(749)	39,234	(4,960)
	2016	39,234	(4,960)	6,106	(96)	20	(765)	45,244	(5,705)
Motor vehicles	2015	82	(26)	5	(37)	8	(9)	50	(27)
	2016	50	(27)	-	(37)	21	(1)	13	(7)
Production and maintenance tools	2015	889	(608)	266	(89)	86	(132)	1,066	(654)
	2016	1,066	(654)	18	(9)	9	(137)	1,075	(782)
Land plots	2015	3	-	1	-	-	-	4	-
	2016	4	-	-	-	-	-	4	-
Other types of property, plant and equipment	2015	375	(153)	12	(6)	2	(27)	381	(178)
	2016	381	(178)	42	(5)	5	(28)	418	(201)
Income-bearing investments in tangible assets including:	2015	7,592	(403)	-	-	-	(124)	7,592	(527)
	2016	7,592	(527)	-	(7,592)	641	(114)	-	-
Facilities and transmission equipment	2015	7,592	(403)	-	-	-	(124)	7,592	(527)
	2016	7,592	(527)	-	(7,592)	641	(114)	-	-

* Cost of property, plant and equipment received in 2016 and depreciation for the period includes cost of property, plant and equipment repurchased at the expiration of the lease agreements and accumulated depreciation of RUB 1,063 million (for 2015: RUB 3,679 million). Exposure of leased property, plant and equipment is described in paragraph 3.6.1 of the Explanatory Notes.

Changes in the cost of property, plant and equipment as a result of further construction, re-equipping, reconstruction or partial liquidation

Narrative	2016	2015
Increase in the cost of property, plant and equipment as a result of further construction, re-equipping, reconstruction including:	23,345	23,674
Machinery and equipment	15,969	17,769
Buildings	5,592	230
Facilities and transmission equipment	1,784	5,673
Other types of property, plant and equipment	-	2
Decrease in value of property, plant and equipment as a result of partial liquidation including:	160	96
Machinery and equipment	151	86
Other types of property, plant and equipment	9	10

Other use of property, plant and equipment

Narrative	31 December 2016	31 December 2015	31 December 2014
Leased out PP&E recognised on the balance sheet	1,451	1,604	1,760
Leased PP&E recognised in the off-balance-sheet accounts	33,862	38,490	34,097
Real estate assets which were put into operation and actually used but are in the process of state registration	5,924	2,552	2,094
PP&E that have been temporarily shut down	80	89	77

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Construction-in-progress and purchase of property, plant and equipment and income-bearing investments in tangible assets

Narrative	Period	At the beginning of the year	Changes for the period				At the end of the year
			Costs for the period	Written off	Other movement*	Recognised as PP&E or uplifted	
Construction-in-progress and purchase of property, plant and equipment and income-bearing investments in tangible assets, including:	2015	56,382	31,083	(44)	(602)	(39,082)	47,737
	2016	47,737	31,778	(252)	4	(42,672)	36,595
Construction-in-progress	2015	51,503	14,698	(21)	15,579	(38,831)	42,928
	2016	42,928	15,900	(234)	16,997	(42,353)	33,238
Incomplete transactions on purchasing property, plant and equipment and income-bearing investments in tangible assets	2015	35	262	(1)	-	(251)	45
	2016	45	282	(17)	33	(319)	24
Equipment for installation	2015	4,844	16,123	(22)	(16,181)	-	4,764
	2016	4,764	15,596	(1)	(17,026)	-	(3,333)

* Transfer of equipment for installation, reclassification of equipment to be installed to construction-in-progress and other movement not related to transfer of assets to property, plant and equipment

3.1.2 Long-term investments (line 1170 of the balance sheet)

Line 1170 "Financial investments" includes contributions to share capital of subsidiaries, associates and other entities, debt securities and long-term loans issued to subsidiaries and associates:

Narrative	31 December 2016	31 December 2015	31 December 2014
Investments in subsidiaries	244,104	252,713	216,413
Investments in associates	11,110	11,110	11,210
Investments in other entities	9,373	3,841	2,690
Long-term loans issued	27,085	51,832	34,039
Debt securities	601	601	-
Total line 1170 "Financial investments"	292,273	320,097	264,352

Exposure of long-term investments to financial risks is described in paragraph 3.15 of the Explanatory Notes.

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Availability and movement of long-term investments

Narrative	Period	At the beginning of the year		Changes for the period					At the end of reporting period	
		Cost	Accumulated adjustment*	Additions	Changes in current market value	Disposed (settled)		Other movements**	Cost	Accumulated adjustment*
						Cost	Accumulated adjustment*			
Long-term investments including:	2015	281,529	(17,177)	62,904	780	(5,552)	-	(2,387)	338,881	(18,784)
	2016	338,881	(18,784)	11,239	5,532	(29,207)	-	(15,388)	320,913	(28,640)
Investments in subsidiaries	2015	216,427	(14)	38,771	-	(35)	-	(2,436)	255,163	(2,450)
	2016	255,163	(2,450)	8,787	-	(2,017)	-	(15,379)	261,933	(17,829)
Investments in associates	2015	11,226	(16)	-	-	(100)	-	-	11,126	(16)
	2016	11,126	(16)	-	-	-	-	-	11,126	(16)
Investments in other entities	2015	12,938	(10,248)	401	780	(79)	-	49	13,260	(9,419)
	2016	13,260	(9,419)	9	5,532	-	-	(9)	13,269	(3,896)
Long-term loans issued	2015	34,039	-	23,131	-	(5,338)	-	-	51,832	-
	2016	51,832	-	2,443	-	(27,190)	-	-	27,085	-
Debt securities	2015	6,899	(6,899)	601	-	-	-	-	7,500	(6,899)
	2016	7,500	(6,899)	-	-	-	-	-	7,500	(6,899)

* Accumulated adjustment includes difference between original and current market value of investments for which current market value can be determined; difference between original and current market value of investments for which current market value is not determinable; provision for impairment of investments.

** Other movements include changes in provision for impairment of investments, accrual of discount on debt securities and reclassification within the balance sheet line 1170 "Investments".

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(a) Investments in subsidiaries, associates and other entities

The balance sheet line 1170 "Investments" includes the below investments in subsidiaries, associates and other organisations:

Subsidiaries and associates and other entities	31 December 2016		31 December 2015		31 December 2014	
	Carrying amount	Share, %	Carrying amount	Share, %	Carrying amount	Share, %
Subsidiaries	244,104		252,713		216,413	
AO Zagorskaya GAES-2	60,691	100.00%	60,691	100.00%	55,924	100.00%
AO Ust-Srednekanskaya GES	23,111	67.82%	23,111	67.82%	23,111	67.82%
PAO RAO ES of East	18,495	84.39%	18,495	84.39%	18,495	84.39%
AO Zaramagskie GES	17,216	99.75%	17,216	99.75%	17,216	99.75%
AO Yakutskaya GRES-2	16,862	100.00%	16,862	100.00%	5,638	100.00%
AO Sakhalinskaya GRES-2	15,012	100.00%	12,996	100.00%	1	100.00%
AO Nizhne-Bureiskaya GES	14,611	100.00%	14,611	100.00%	8,673	100.00%
AO CCGT in the City of Sovetskaya Gavan	13,844	100.00%	7,345	100.00%	4,375	100.00%
PAO Kolymaenergo	13,187	98.76%	13,187	98.76%	13,187	98.76%
AO Sulakskiy Hydrocascade	10,094	100.00%	10,094	100.00%	10,094	100.00%
AO Malaya Dmitrovka	6,394	100.00%	6,394	100.00%	6,394	100.00%
AO Gidroinvest	5,422	100.00%	9,550	100.00%	9,550	100.00%
AO Leningradskaya GAES	4,994	100.00%	4,994	100.00%	5,898	100.00%
AO Blagoveschenskaya TEC	4,285	100.00%	6,302	100.00%	6,302	100.00%
AO ESK RusHydro	3,420	100.00% - 1 share	11,832	100.00% - 1 share	11,832	100.00% - 1 share
AO Lenhydroproject	3,260	100.00%	3,260	100.00%	3,260	100.00%
AO Yuzhno-Yakutskiy GEK	3,005	100.00%	3,255	100.00%	3,255	100.00%
AO Geoterm	2,425	99.65%	2,425	99.65%	2,425	99.65%
PAO Yakutskenergo*	1,671	29.80%	1,671	29.80%	1,671	29.80%
HydroOGK Power Company Ltd	1,171	100.00%	1,171	100.00%	1,171	100.00%
AO NIIES	1,067	100.00%	983	100.00%	983	100.00%
OOO Verkhnebalkarskaya MGES	937	100.00%	937	100.00%	937	100.00%
AO CSO SGES	589	100.00%	589	100.00%	589	100.00%
PAO Kamchatsky gas and energy complex	531	96.58%	531	96.58%	531	96.58%
AO Hydro-Engineering Siberia	256	100.00%	990	100.00%	2,292	100.00%
AO GVTS Energetiki**	74	100.00%	653	100.00%	-	-
AO Renewable Energy Engineering Centre	-	100.00%	694	100.00%	694	100.00%
Other	1,480		1,874		1,916	
Associates:	11,110		11,110		11,210	
OAO Irkutsk Electric Grid Company	8,543	42.75%	8,543	42.75%	8,543	42.75%
OAO Sakhalin energy company	2,567	28.09%	2,567	28.09%	2,567	28.09%
Other	-		-		100	
Other entities:	9,373		3,841		2,690	
PAO Inter RAO	7,709	1.94%	2,217	1.94%	1,445	1.94%
PAO Boguchanskaya GES	1,081	2.88%	1,081	2.88%	1,081	2.88%
Other	583		543		164	
Total:	264,587		267,664		230,313	

* Investment in PAO Yakutskenergo (29.80%) is recorded within subsidiaries as the Company has control over these entities indirectly via other subsidiaries.

Key factors affected changes in the value of investments in subsidiaries, associates and other entities in 2016 are as follows:

- acquisition of shares of additional issues of subsidiaries for a total amount of RUB 8,770 million, including AO TPP in Sovetskaya Gavan for the amount of RUB

- 6,499 million, AO Sakhalinskaya GRES-2 for the amount of RUB 2,016 million and other companies for the amount of RUB 255 million;
- appraisal of financial investments having a current market value, with recognition of profit for a total of RUB 5,532 million (see paragraph 3.15 of the Explanatory Note), including profit of RUB 5,492 million on shares of PAO Inter RAO;
- creation of provision for impairment of financial investments in the amount of RUB 15,402 million, including against AO ESK RusHydro in the amount of RUB 8,412 million, AO Hydroinvest for the amount of RUB 4,128 million, AO Hydro Engineering Sibir for the amount of RUB 734 million, AO Engineering Center for Renewable Energy in the amount of RUB 694 million, AO GVC Energetiki for the amount of RUB 579 million and other companies for the amount of RUB 855 million;
- reduction of the nominal value of shares of AO Blagoveshchenskaya CHPP in the amount of RUB 2,017 million by converting with repayment of monetary funds to the Company.

In 2016, the shares of the companies of AO Blagoveshchenskaya CHPP, AO Sakhalinskaya GRES-2, AO TPP in Sovetskaya Gavan and AO Yakutskaya GRES-2 were returned from the trust management of PAO RAO ES of East.

Investments in subsidiaries that have current market value

As of 31 December 2016, 31 December 2015 and 31 December 2014, investments included shares of the Company's subsidiaries, i.e. PAO RAO ES of East, PAO Yakutskenergo and PAO DEK, received in 2011–2013 as a result of the additional issue of the Company's shares which are recognised on the Company's balance sheet. These investments are recorded at the value agreed with the founders and determined on the basis of the market valuation performed by an independent appraiser totalling 20,204 million as of 31 December 2016 (as of 31 December 2015: 20,204 million; as of 31 December 2014: 20,204 million). This valuation exceeds the current market value of the shares as of 31 December 2016, 31 December 2015 and 31 December 2014 by RUB 6,614 million, RUB 5,047 million and RUB 13,535 million, respectively.

The Company's management plans to get benefits from investments in PAO RAO ES of East, PAO Yakutskenergo and PAO DEK by controlling their business operations rather than as a result of fluctuations in their market value. Thus, according to the Company's management, current market quotes do not fairly reflect the fair value of the controlling shareholdings in these companies as the number of shares traded in the market is not representative; not more than 1% of total shares issued are in circulation on a daily basis.

Also since the end of the 2015 year the process of PAO RAO ES of East shares' consolidation in RusHydro Group (RusHydro Group includes the Company and subsidiaries which are controlled by the Company directly or indirectly via other subsidiaries) by buying from minority and bringing the stake to 100% has started. In 2016, as part of the voluntary offer and then the forced repurchase of shares of PAO RAO ES of East, carried out by one of the subsidiaries of the RusHydro Group, RusHydro's stake in PAO RAO ES of East grew from 86.20% to 99.98%. As of 31 December 2016, and to date, delisting of shares from the Moscow stock exchange did not take place, but from the middle of September 2016 the current market value of the shares of PAO RAO ES of East is not determined.

In view of these circumstances and considering that the Company has no plans to sell these investments, in accordance with paragraph 6 of the Russian Accounting Regulation "Accounting reports of an organisation" (RAR 4/99), approved by order No. 43n of the Russian Ministry of Finance of 6 July 1999, the Company decided against performing revaluation of its investments in shares of PAO RAO ES of East, PAO Yakutskenergo and PAO DEK at the current market value from acquisition date.

The Company's management analysed the models of expected cash flows and factors that may show that there are indications of impairment of investments and came to a decision that these assets are not impaired as of 31 December 2016.

The amount of unrecognised change in the market value as compared to the carrying amount as of 31 December 2016 is RUB 6,614 million (as of 31 December 2015: RUB 5,047 million; as of 31 December 2014: RUB 13,535 million). The Company's net assets would have amounted to

RUB 762,785 million, if it included the above unrecognised change in the value (as of 31 December 2015: RUB 737,489 million, as of 31 December 2014: RUB 704,994 million).

Impairment of investments in subsidiaries, associates and other entities for which current market value is not determinable

The Company's management analysed the negative trends related to a number of subsidiaries, which is presented below. The management performed the analysis of investments to the share capital of the entities listed below for possible signs of impairment, and also analysed possible impairment of other assets related to these subsidiaries, including those recorded within accounts receivable (see paragraph 3.2.2 of the Explanatory Notes).

As a result of the analysis, a number of subsidiaries and other organizations were impaired and a provision was made in the total amount RUB 15 402 million.

The amount of provision for impairment of investments for which the current market value is not determined as of 31 December 2016 is RUB 17,855 million. (as of 31.12.2015 – RUB 2,466 million, as of 31.12.2014 – RUB 79 million). The initial value of long-term financial investments in respect of which a provision for impairment of financial investments was created is RUB 35,096 million as of 31.12.2016 (as of 31.12.2015 – RUB 8,453 million, as of 31.12.2014 – RUB 111 million).

AO Zagorskaya GAES-2. In September 2013, Zagorskaya GAES-2 which is currently under construction suffered from the flooding of a section of the GAES building from the lower reservoir. Due to the technical complexity of identifying the losses as a result of the accident, management are not able to estimate the amount of expenses needed to rectify the accident consequences and write off the damaged items of construction in progress.

Assets in relation to AO Zagorskaya GAES-2 on the balance sheet of the Company as of 31 December 2016 are as follows:

- within long-term investments: shares of AO Zagorskaya GAES-2 for the amount of RUB 60,691 million.

The analysis of recoverability of these assets performed by the Company as of 31 December 2016 was based on the following key factors:

- Construction works and the assets are insured. As at 31 December 2016 all insurance companies PIJSC Ingosstrakh, JSC AlfaStrakhovanie and JSC SOGAZ have recognized the technical incident at Zagorskaya GAES-2 as an insured event and paid insurance indemnity.
- Management plans to perform recovery work and complete construction of Zagorskaya GAES-2. As of 31 December 2016 there is significant uncertainty in terms of the expenses to be incurred on recovery of damage caused by the flooding at Zagorskaya GAES-2. However, these expenses can be significant. Capacity supply contracts were concluded in respect of Zagorskaya GAES-2. There are specific rules for the price setting in respect of new HPPs (including pumped-storage power plants) being constructed: the price is set in a manner that guarantees payback period of 20 years for all CAPEX invested in construction.
- Following the decision of the regulatory body NP Market Council of 22 November 2016 the commissioning of the first stage of the Zagorskaya PSPP-2 and the first date of the beginning of the fulfillment of the obligations for the delivery of capacity were postponed until 1 January 2019, with respect to the second stage - until 1 January 2020. As a result of the adjustment of the terms, AO Zagorskaya PSPP-2 has no penalties for the shortage of capacity to the market under the said contracts.

Based on the analysis of factors that might indicate impairment of assets related to Zagorskaya GAES-2 construction project, the Company's management concluded that there were no such indicators as of 31 December 2016.

No negative trends which may result in impairment of other shareholdings were observed.

(b) Long-term loans issued

Loan recipient's name	31 December 2016	31 December 2015	31 December 2014	Annual rate,%
Long-term loans issued to related parties, including:				
AO Hydroinvest	12,137	14,181	-	7,51% - 10,095%
AO Far East Distribution Grid Company	4,846	5,023	6,630	7,997%/ 10,095%
AO Far East Generating Company	4,538	11,838	10,038	7,997%
AO Sakhaenergo	3,476	3,476	3,476	7,997%
AO ESK RusHydro	1,030	3,305	-	10,095%
AO Teploenergосervice	929	929	929	7,997%
AO Zagorskaya GAES-2	-	5,562	7,029	
AO Nizhne-Bureiskaya GES	-	4,653	2,300	
AO Ust-Srednekanskaya GES	-	2,111	1,747	
AO Tekhnopark Rummyantsevo	-	-	1,292	
Other	129	754	598	
Total long-term loans issued	27,085	51,832	34,039	

As of 31 December 2016 the balance sheet line 1170 "Investments" includes the following long-term loans issued:

- Loans to AO Hydroinvest amounting to RUB 12,137 million, including loans amounting to RUB 10,389 million maturing by 28 April 2018 that were removed from short-term interest-free loans (see 3.2.2 of Explanations); and loans amounting to RUB 1,748 million maturing by 29 June 2018 that were removed from short-term interest loans due to changes in conditions of contracts;
- loan to AO Far East Generating Company amounting to RUB 4,846 million to refinance liabilities maturing by 3 December 2018 and 14 October 2025;
- loan to AO Far East Distribution Grid Company amounting to RUB 4,538 million to refinance liabilities and finance working capital maturing by 03 December 2018;
- loan to AO Sakhaenergo amounting to RUB 3,476 million to refinance liabilities with due date 03.12.2018
- loans to AO ESK RusHydro in the total amount of RUB 1,030 million issued for refinance liabilities maturing by 29 June 2018 and 01 December 2025;
- loan to AO Teploenergосervis in the amount of RUB 929 million issued to refinance and debt repayment maturing by 03 December 2018.

There are no indicators of a prolonged decline in the value of the above investments.

3.1.3 Other non-current assets (line 1190 of the balance sheet)

Line 1190 "Other non-current assets" includes expenses of future periods to be written-off from expense account during the period beyond 12 months of the reporting date.

Breakdown of total expenses of future periods by types is presented in the table below:

Narrative	31 December 2016	31 December 2015	31 December 2014
Zelenchukskaya GAES connections to the grid	1,931	-	-
Project documentation on the construction of Cheboksarskaya GES related to uplifting water reservoir level	1,620	1,620	1,620
Software and licenses	984	1,153	1,461
Borrowing costs	891	1,083	1,175
Other	150	476	458
Total expenses of future periods, including:	5,576	4,332	4,714
Long-term expenses of future periods which are subject to writing-off from expense account during the period beyond 12 months of the reporting date (within the balance sheet line 1190)	4,703	3,287	3,538
Short-term expenses of future periods which are subject to writing-off from expense account during 12 months of the reporting date (within the balance sheet line 1210)	873	1,045	1,176

As a result of works performed to uplift the level of Cheboksary water reservoir it is planned to increase the production capacity of Cheboksary GES and eliminate the increased depreciation of equipment and hydraulic engineering installations. If the Company becomes aware that it won't obtain the expected additional economic benefits, the above expenses of future periods will be written-off against other expenses.

3.2 Current assets (Section II of the balance sheet)

3.2.1 Inventories (line 1210 the balance sheet)

Narrative	31 December 2016	31 December 2015	31 December 2014
Spare parts, materials and other inventories	3,328	3,046	2,241
Short-term expenses of future periods which are subject to writing-off from expense account during 12 months of the reporting date (see paragraph 3.1.3 of the Explanatory Notes)	873	1,045	1,176
Other	51	24	20
Total line 1210 "Inventories"	4,252	4,115	3,437

Spare parts, materials and other inventories are measured at actual cost of acquisition. As of 31 December 2016 the provision for their impairment amounted to RUB 157 million (31 December 2015: RUB 156 million, 31 December 2014: RUB 158 million).

3.2.2 Accounts receivable (line 1230 of the balance sheet)

(a) Long-term accounts receivable (payments expected beyond 12 months of the reporting date)

Total long-term accounts receivable were RUB 62,615 million, 62,549 million and 62,341 million as of 31 December 2016, 2015 and 2014, respectively.

Breakdown by types of long-term accounts receivable is as follows:

Type of long-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
Interest-free promissory notes received	29,312	28,578	27,563
Advances issued to suppliers of equipment and capital construction contractors	19,676	28,176	31,095
Interest-free loans issued	11,258	3,447	1,503
Buyers and customers	178	976	409
Lease receivables	152	241	495
Other long-term accounts receivable	2,039	1,131	1,276
Total line 1231 "Long-term accounts receivable (payments expected beyond 12 months of the reporting date)"	62,615	62,549	62,341

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Long-term accounts receivable include advances issued to the following suppliers of equipment and capital construction contractors:

Counterparty	31 December 2016	31 December 2015	31 December 2014
Voith Hydro GmbH & Co KG	9,371	5,289	5,851
PAO Silovye Mashiny	9,220	14,271	15,208
AO Hydroremont-BKK	616	2,859	3,120
OOO VolgaGidro	325	-	-
OOO Corporation SpetsHydroProject	-	5,491	6,565
Other	144	266	351
Total advances issued to suppliers of equipment and capital construction contractors	19,676	28,176	31,095

Advances issued to suppliers of equipment and capital construction contractors relating to the equipment (work) with expected supply during 2017 are included within short-term advances issued.

Long-term accounts receivable include interest-free promissory notes issued by the following issuers:

Issuer	31 December 2016	31 December 2015	31 December 2014
Other related parties, including:	25,689	25,689	25,689
PAO Boguchanskaya GES	21,027	21,027	21,027
ZAO Boguchansky Aluminium Smelter	4,662	4,662	4,662
Total interest-free promissory notes from related parties	25,689	25,689	25,689
PAO ROSBANK	1,491	1,491	935
AO Alfa-Bank	1,280	1,298	850
PAO Bank VTB	742	-	-
OAO Ulyanovskenergo	110	100	89
Total interest-free promissory notes from other counterparties	3,623	2,889	1,874
Total long-term interest-free promissory notes received	29,312	28,578	27,563

As of 31 December 2016, the Company's long-term accounts receivable represented by other related parties' long-term interest-free promissory notes purchased for financing investment program consist of the following promissory notes:

- PAO Boguchanskaya GES: promissory notes for RUB 21,027 million payable on demand after 31 December 2029 (the present value of the promissory notes reflecting time value of money as of 31 December 2016 is RUB 6,269 million);
- ZAO Boguchansky Aluminium Smelter: promissory notes for RUB 4,662 million payable on demand after 31 December 2024 (the present value of the promissory notes reflecting time value of money as of 31 December 2016 is RUB 2,174 million).

Long-term accounts receivable include interest-free loans issued to the following counterparties:

Counterparty	31 December 2016	31 December 2015	31 December 2014
Subsidiaries, including:	10,890	3,078	1,155
AO Nizhne-Bureiskaya GES	4,653	-	-
AO CCGT in the City of Sovetskaya Gavan	2,355	631	-
AO Ust-Srednekanskaya GES	2,111	-	-
AO ESK RusHydro	1,034	1,034	1,034
AO MGES Kabardino-Balkarii	407	-	-
AO Sakhalinskaya GRES-2	330	330	-

TRANSLATOR'S EXPLANATORY NOTE: This version of our report/the accompanying documents is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Counterparty	31 December 2016	31 December 2015	31 December 2014
AO Yakutskaya GRES-2	-	1,003	-
Other	-	80	121
Other related parties	7	21	28
Total interest-free loans issued to related parties	10,897	3,099	1,183
Other	361	348	320
Total interest-free loans issued to other counterparties	361	348	320
Total long-term interest-free loans issued	11,258	3,447	1,503

Counterparty	31 December 2016	31 December 2015	31 December 2014
Interest receivable accrued on loans issued and promissory notes received, including:	1,702	690	1,258
Subsidiaries	1,702	690	1,258
Other accounts receivable	337	441	18
Total other long-term accounts receivable	2,039	1,131	1,276

Amount and movements in the impairment provision for long-term accounts receivable

Type	Period	At the beginning of the year	Provision creation	Recovery of provision	Write-off against a provision	Transfer to provision for short-term receivables	At the end of the year
Impairment provision for long-term accounts receivable, including:	2015	3,167	-	-	-	(144)	3,023
	2016	3,023	-	-	-	(144)	2,879
Trade receivables	2015	432	-	-	-	(144)	288
	2016	288	-	-	-	(144)	144
Other	2015	2,735	-	-	-	-	2,735
	2016	2,735	-	-	-	-	2,735

(b) Short-term accounts receivable (payments expected within 12 months of the reporting date)

Total short-term accounts receivable less doubtful debt provision were RUB 86,999 million, 66,762 million and 82,224 million as of 31 December 2016, 2015 and 2014, respectively.

Type of short-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
Buyers and Customers, including:	7,120	6,741	5,840
Accounts receivable for electricity and capacity	6,214	5,752	5,521
Other	906	989	319
Advances issued, including:	10,206	14,495	12,870
Advances issued to suppliers of equipment and capital construction contractors	9,641	13,286	12,036
Other advances issued	565	1,209	834
Other debtors, including:	69,673	45,506	63,514
Interest-free promissory notes received	5,459	20,809	19,119
Interest-free loans issued	30,792	12,925	26,384
Accounts receivable from subsidiaries as part of additional issues before title for the shares issued is transferred to the Company	22,997	7,951	11,805
Indebtedness under assignment agreement paragraph 3.12.7 of the Explanatory Notes	8,257	-	-
Taxes receivable	676	1,322	2,252
Lease receivables	95	220	707

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Type of short-term accounts receivable	31 December 2016	31 December 2015	31 December 2014
Other	1,397	2,279	3,247
Total line 1232 "Accounts receivable" (payments expected within 12 months of the reporting date)	86,999	66,742	82,224

Short-term accounts receivable include advances issued to the following suppliers of equipment and capital construction contractors relating to the equipment (work) with expected supply within 12 months of the reporting date.

Counterparty	31 December 2016	31 December 2015	31 December 2014
PAO Silovye Mashiny	6,538	6,817	5,317
AO Hydroremont-BKK	838	1,017	965
OOO VolgaGidro	475	-	-
Voith Hydro GmbH & Co KG	22	739	1,160
ZAO Technoserv A/C	3	821	441
OOO Corporation SpetsHydroProject	-	986	1,817
AO ChirkeiGESstroi	-	418	286
Other	1,765	2,488	2,050
Total advances issued to suppliers of equipment and capital construction contractors	9,641	13,286	12,036

Short-term accounts receivable include interest-free promissory notes issued by the following issuers:

Issuer	31 December 2016	31 December 2015	31 December 2014
Subsidiaries, including:	5,457	20,767	18,846
AO Zaramagskie GES	3,090	2,524	1,563
AO MGES Kabardino-Balkarii	2,142	1,839	838
AO Karachaeve-Cherkesskaya Hydrogenerating Company	84	244	244
OOO Index energetiki – HydroOGK	-	13,621	13,646
HydroOGK Aluminium Company Ltd	-	2,142	2,142
AO Hydroinvest	-	256	256
Other	141	141	157
Total interest-free promissory notes from related parties	5,457	20,767	18,846
Other	2	42	273
Total interest-free promissory notes from other counterparties	2	42	273
Total short-term interest-free promissory notes received	5,459	20,809	19,119

As of 31 December 2016, short-term receivables from subsidiaries on short-term interest-free promissory notes acquired by the Company are represented by promissory notes payable on demand.

Short-term accounts receivable include interest-free loans issued to the following counterparties:

Counterparty	31 December 2016	31 December 2015	31 December 2014
Subsidiaries, including:	30,700	12,858	26,313
OOO Index energetiki – HydroOGK	13,521	-	-
AO Ust-Srednekanskaya GES	6,303	3,300	2,218
OOO EZOP	2,902	5,265	5,373
OOO Vostok-finans	2,337	-	-
AO Sulaksky Hydrocascade	1,559	1,166	923
AO Yakutskaya GRES-2	1,353	-	973
AO MGES Kabardino-Balkarii	851	780	780
AO ChirkeiGESstroi	450	-	-
AO Leningradskaya GAES	377	189	151
AO Blagoveschenskaya TEC	370	1,473	1,473

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Counterparty	31 December 2016	31 December 2015	31 December 2014
AO MGES Altaya	251	248	248
AO Tekhnopark Rummyantsevo	183	183	183
OOO Verkhnebalkarskaya MGES	165	165	165
AO Hydroinvest	-	-	12,381
AO CCGT in the City of Sovetskaya Gavan	-	-	631
AO Zagorskaya GAES-2	-	-	452
Other	78	89	362
Other related parties, including:	7	21	12
Loans issued to the Company's key management	7	21	12
Total interest-free loans issued to related parties	30,707	12,879	26,325
Total short-term interest-free loans issued to other counterparties	85	46	59
Total short-term interest-free loans issued	30,792	12,925	26,384

As of 31 December 2016, short-term interest-free loans issued include:

- loans to OOO Index energetiki – HydroOGK in the amount of RUB 13,521 million payable on demand issued as part of the replacement of the obligation to pay interest-free bills presented for redemption;
- loan to AO Ust-Srednekanskaya GES in the amount of RUB 6,303 million payable on demand issued for the financing investment project “Ust-Srednekanskaya GES”;
- loan to OOO Vostok-finans in the amount of RUB 2,337 million till 24.12.2017 for financing of the purchase by the Group of subsidiary PAO RAO ES of East shares during the voluntary offer and the following mandatory buyout.

In addition, short-term accounts receivable include receivables from the following subsidiaries, arising after partial payment for shares of additional issues but before the title to the issued shares is transferred to the Company:

Counterparty	31 December 2016	31 December 2015	31 December 2014
AO Nizhne-Bureyskaya GES	16,128	6,416	5,938
AO Zagorskaya GAES-2	5,473	-	4,767
AO Sulaksky Hydrocascade	1,386	863	-
AO CCGT in the City of Sovetskaya Gavan	-	400	200
Other	10	272	900
Total accounts receivable from the following subsidiaries, arising after partial payment for shares of additional issues but before the title to the issued shares is transferred to the Company	22,997	7,951	11,805

Short-term accounts receivable includes the following types of tax receivables:

Item	31 December 2016	31 December 2015	31 December 2014
Income tax	438	945	1,530
Other taxes and levies	238	377	722
Total tax receivables	676	1,322	2,252

Amount and movements in the impairment provision for short-term accounts receivable

Type	Period	At the beginning of the year	Provision creation	Recovery of provision	Write-off against a provision	Transfer*	At the end of the year
Provision for short-term accounts receivable,	2015	7,659	2,650	(3,490)	(424)	144	6,539
	2016	6,539	8,283	(2,368)	(179)	854	13,129

including							
Trade receivables	2015	6,058	2,034	(3,395)	(40)	144	4,801
	2016	4,801	2,463	(1,707)	(162)	144	5,539
Advances issued	2015	31	82	(2)	(2)	-	109
	2016	109	9	(26)	(5)	-	87
Other	2015	1,570	534	(93)	(382)	-	1,629
	2016	1,629	5,811	(635)	(12)	710	7,503

* Includes transfer from provision for long-term accounts receivable and financial investments.

Overdue accounts receivable

Item	31 December 2016		31 December 2015		31 December 2014	
	Recognised under contract	Carrying amount	Recognised under contract	Carrying amount	Recognised under contract	Carrying amount
Total, including:	8,594	1,721	7,819	1,387	8,527	600
Buyers and customers	5,423	320	4,978	258	6,522	120
Advances issued	1,332	1,246	1,232	1,124	490	459
Other debtors	1,839	155	1,609	5	1,515	21

3.2.3 Short-term investments (Line 1240 of the balance sheet)

The structure of the Company's short-term investments is represented by the following assets:

Type of investment	31 December 2016	31 December 2015	31 December 2014
Bank deposits	4,075	10,609	33,307
Loans issued	1,230	5,270	10,139
Total line 1240 "Investments" (excluding cash equivalents)	5,305	15,879	43,446

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Short-term investments and their movements

Item	Period	Opening balance		Changes for the period*				Closing balance	
		Historical cost	Accumulated adjustment	Additions*	Disposal (repayment)		Accrual of impairment provision	Historical cost	Accumulated adjustment
					Historical cost*	Accumulated adjustment			
Short-term investments, including:	2015	43,446	-	90,196	(117,053)	-	(710)	16,589	(710)
	2016	16,589	(710)	58,168	(67,196)	710	(2,256)	7,561	(2,256)
Bank deposits	2015	33,307	-	81,485	(104,183)	-	-	10,609	-
	2016	10,609	-	40,792	(47,326)	-	-	4,075	-
Short-term loans issued	2015	10,139	-	8,546	(12,705)	-	(710)	5,980	(710)
	2016	5,980	(710)	17,376	(19,870)	710	(2,256)	3,486	(2,256)
Promissory notes	2015	-	-	165	(165)	-	-	-	-
	2016	-	-	-	-	-	-	-	-

* *Movements of short-term investments received and disposed of (repaid) in the same reporting period are presented on a gross basis.*

Exposure of short-term investments to financial risks is described in paragraph 3.15 of the Explanatory Notes.

(a) Bank deposits

As of 31 December 2016, bank deposits include a short-term deposit of RUB 4,075 million placed with PAO Sberbank of Russia maturing from 23.01.2017 till 01.03.2017 (as of 31 December 2015 – RUB 10,609 million maturing from 18 January 2016 till 15 March 2016). These funds represent interest income from the placement of funds that were received by the Company in 2013 during an additional issue and are intended to finance the construction of four thermal stations in the Far East.

(b) Short-term loans issued

Loan recipient's name	31 December 2016	31 December 2015	31 December 2014	Annual rate,%
Short-term loans issued to related parties, including:				
AO ESK RusHydro	446	-	3,120	10,095%
AO Transport company RusHydro	369	72	40	10.095%-10.107%
AO Yakutskaya GRES-2	231	-	-	10,139%
AO Far East Distribution Grid Company	177	1,607	-	10,095%
ZAO Verkhne-Narynskie GES	-	2,711	1,484	
AO Nizhne-Bureyskaya GES	-	509	282	
AO Far East Distribution Company	-	200	2,000	
AO Hydroinvest	-	-	1,920	
AO ChirkeyGESstroy	-	-	450	
AO ESKO EES	-	-	260	
AO Malaya Dmitrovka	-	-	205	
Other	7	171	378	
Total short-term loans issued	1,230	5,270	10,139	

As of 31 December 2016 there was provision for impairment of short-term loans issued in the total amount of RUB 2,256 million (31 December 2015: RUB 710 million; 31 December 2014: RUB 0 million). As of 31 December 2016 provision was made for loan issued to ZAO Verkhne-Narynskie GES. There are no indicators of a prolonged decline in the value of investments.

3.2.4 Cash and cash equivalents (line 1250 of the balance sheet)

Item	31 December 2016	31 December 2015	31 December 2014
Cash in bank	7,206	898	3,661
Cash equivalents	32,849	17,241	5,371
Cash at accounts in the Office of the Federal Treasury	899	-	-
Total line 1250 "Cash and cash equivalents"	40,954	18,139	9,032

As of 31 December 2016, 2015 and 2014, there is no restricted cash.

The balance of the target cash in the amount of RUB 899 million, received by the Company within the framework of an additional issue in previous periods for the implementation of investment projects for the construction of electric power facilities, as of 31 December 2016 is placed on special accounts in the Office of the Federal Treasury for Moscow. These funds can be used by the Company only after passing the approval procedure by the Federal Treasury on the basis of the established procedure for authorizing the expenses of organizations by Order No. 21n of the Ministry of Finance of the Russian Federation of 25 December 2015.

As of 31 December 2016, 2015 and 2014, cash equivalents included short-term bank deposits with original maturities of three months or less.

As of 31 December 2016 there were cash balances denominated in US dollars equivalent to RUB 312 million (31 December 2015: RUB 0 million; 31 December 2014: RUB 25 million). As of 31 December 2016 there were cash balances denominated in Euro equivalent to RUB 0 million (31 December 2015: RUB 0 million, 31 December 2014: RUB 2,239 million).

As of 31 December 2016, interest rates on Rouble deposits were 9.55% – 10.41% p.a. (31 December 2015: 8.64% – 11.65%, 31 December 2014: 10.00% – 18.50%).

The Company holds cash and cash equivalents in the following credit institutions:

Credit institution	Rating on 31 December 2016	Rating agency	31 December 2016	31 December 2015	31 December 2014
Bank deposits, including:					
Bank VTB (PAO)	BB+	Standard & Poor's	20,430	2,277	-
Bank GPB (AO)	Ba2	Moody's	12,107	-	533
PAO Sberbank	Ba1	Moody's	312	1,728	2,615
PAO Bank FK Otkrytie	-	-	-	7,644	-
PAO AKB Svyaz-Bank	-	-	-	2,718	-
AO SMP Bank	-	-	-	1,874	-
AO Globeksbank	-	-	-	1,000	-
AO UniCredit Bank	-	-	-	-	2,223
Total cash equivalents			32,849	17,241	5,371
Cash in banks, including:					
Bank GPB (AO)	Ba2	Moody's	4,918	245	2,910
Bank VTB (PAO)	BB+	Standard & Poor's	1,803	8	10
PAO Sberbank	Ba1	Moody's	479	581	663
Other			6	64	78
Total cash in bank			7,206	898	3,661

Notes to the statement of cash flows

Cash flows required for the purposes of supporting the existing scope of the Company's operations are presented within current operations. Cash flows related to expansion of the Company's business are included in investing activities.

Cash flows spent on investments and received on repayment of cash equivalents (excluding accrued interest) are not included in the cash flow statement.

Cash flows spent on investments and received on repayment of short-term bank deposits (with a maturity of more than three months) within the same reporting period, are recorded on a net basis in line 4219 "Other receipts" or line 4229 "Other payments" of the cash flow statement if they have such characteristics as quick return, large amount and short-term maturity.

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Breakdown for lines “Other receipts” and “Other payments” of the statement of cash flows is presented below:

Item	2016	2015
Other receipts from operating activities (line 4119), including:	4,209	2,706
Value added tax	3,508	2,007
Penalties, interest and fines recognised or for which court rulings on collection have been received	385	325
GDR	277	174
Other receipts from operating activities	39	200
Other payments related to operating activities (line 4129), including:	(12,066)	(13,228)
Taxes and levies	(7,821)	(7,976)
Non-budget funds	(1,717)	(1,789)
Charity payments	(434)	(437)
Business trip expenses	(175)	(1,210)
Water usage expenses	(1,183)	(895)
Payment of corporate expenses	(194)	(262)
Other payments related to operating activities	(542)	(659)
Other payments related to investing activities (line 4219), including:	8,578	22,731
Cash placement on a short-term deposit other than cash equivalent	6,537	22,697
Proceeds from the conversion of shares of the subsidiary by reducing the nominal value	2,017	-
Other payments related to investing activities	24	34
Other payments related to financing activities (line 4329), including:	(8)	(30)
Settlement of finance lease obligations (payments under lease contracts)	(5)	(30)
Other payments related to financing activities	(3)	-

3.3 Equity and reserves (Section III of the balance sheet)

3.3.1 Share capital (line 1310 of the balance sheet)

As of 31 December 2016, 2015 and 2014, the Company’s share capital is registered according to the established procedure and fully paid:

Share capital composition	Number of shares at 31 December 2016	Number of shares at 31 December 2015	Number of shares at 31 December 2014
Ordinary shares with nominal value of RUB 1 per share	386,255,464,890	386,255,464,890	386,255,464,890

As of 31 December 2016, the following shareholders are registered in the register of shareholders:

Shareholder	Type of shareholder	Number of shares	Ownership share, %
Russian Federation represented by the Federal Agency for State Property Management	beneficial owner	258,161,535,606	66.84%
Non-Banking Credit Organisation ZAO National Settlement Depository	nominee holder	115,667,789,603	29.95%
OOO Depository and Corporate Technologies	nominee holder	5,391,240,442	1.40%
Other		7,034,899,239	1.81%
Total		386,255,464,890	100.00%

The members of the Management Board of the Company hold 71 million shares of the total number of ordinary shares as of 31 December 2016 (as of 31.12.2015 - 71 million units, as of 31.12.2014 - 622 million units). Subsidiary and dependent companies own 18,852 million shares

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of the Company (as of 31.12.2015 - 21,787 million shares, as of 31.12.2014 - 21,787 million shares).

Additional issue in 2016-2017

The Company's extraordinary general meeting of shareholders held on 22 November 2016 (Minutes No. 244 on 23.11.2016) made the decision to increase the Company's share capital by placing 40,429,000,000 additional ordinary registered shares with the nominal value of RUB 1 each through public offering with payment in cash and non-monetary assets.

On 7 December 2016, the The Central Bank of the Russian Federation registered the additional issue of the Company's 40,429,000,000 ordinary registered shares No. 1-01-55038-E-042D. The placement of shares in terms of this additional issue began in January 2017 (paragraph 3.16 of the Explanatory Notes).

3.3.2 Revaluation of non-current assets (line 1340 of the balance sheet)

As of 31 December 2016, the amount of accumulated revaluation of non-current assets is RUB 52,705 million (31 December 2015: RUB 52,928 million, 31 December 2014: RUB 53,111 million). This metric consists of the amounts of revaluation accumulated by subsidiaries and associate which the Company acquired as part of the 2008 restructuring process.

The amount of accumulated revaluation was decreased by RUB 223 million in 2016 due to disposal of items of property, plant and equipment revalued earlier (2015: RUB 183 million,).

3.3.3 Additional paid-in capital (line 1350 of the balance sheet)

As of 31 December 2016, 2015 and 2014, the Company's additional paid capital was RUB 58,424 million, RUB 58,424 million and RUB 58,424 million, respectively, and consisted of share premium of the Company and subsidiaries and associates which the Company acquired as part of the 2008 restructuring process.

3.3.4 Reserve capital (line 1360 of the balance sheet)

As of 31 December 2016, 2015 and 2014, the Company's reserve capital was RUB 11,278 million, RUB 9,776 million and RUB 8,240 million, respectively.

In accordance with the decision of the Company's annual general meeting of shareholders of 27 June 2016 (Minutes No. 15), the Company allocated 5% of its net profit for 2015 in the amount of RUB 1,502 million to the reserve capital.

3.4 Non-current liabilities (Section IV of the balance sheet)

3.4.1 Long-term borrowings (line 1410 of the balance sheet)

Balance sheet line 1410 "Borrowings" includes long-term loans payable:

Lender / creditor	31 December 2016	31 December 2015	31 December 2014
PAO Sberbank	33,389	33,389	33,389
Russian bonds issued in February 2013	20,000	20,000	20,000
Russian bonds issued in July 2015	15,000	15,000	-
Russian bonds issued in April 2016	15 000	-	-
Crédit Agricole Corporate and Investment Bank Deutschland	5,552	6,933	5,946
UniCredit Bank Austria AG	4,951	6,871	5,892
AO Malaya Dmitrovka	652	-	-
Russian bonds issued in April 2011	250	-	15,000
AO GVTS Energetiki	54	1,099	-
European Bank for Reconstruction and Development	-	10,653	11,030
Russian bonds issued in April 2015	-	10,000	-

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Lender / creditor	31 December 2016	31 December 2015	31 December 2014
Bayerische Landesbank (BayernLB)	-	1,125	1,005
Total line 1410 "Borrowings"	94,848	105,070	92,262

In April 2016 the Company placed non-convertible interest bearing market bonds of series BO-P04 with a nominal amount of RUB 15,000 million. The term of the offer is 3 years, coupon rate is 10,35% per annum.

Also in April 2016, holders of Russian bonds issued in April 2011 partially presented securities for early repayment under the offer, as a result of which the Company purchased bonds with a nominal value of RUB 14,750 million. Bonds that were not presented by the holders for early redemption, with a nominal value of RUB 250 million. Will apply until maturity in 2021 with a coupon rate of 9.50%.

During 2016, the loans of the European Bank for Reconstruction and Development (EBRD) and Bayerische Landesbank (BayernLB) were fully repaid in full.

Russian bonds issued in April 2015 with a total nominal value of RUB 10,000 million, as of 31 December 2016, were included in short-term borrowings (see paragraph 3.5.1 of the Explanatory Notes) due to the fact that in 2017 The right of bondholders to present securities for early repayment can be realized (in 2.5 years from the date of issue).

As of 31 December 2016 terms of material received long-term borrowings were the following:

Lender / creditor	Agreement effective year	Redemption year	Amount in million units (in the currency of the loan)	Currency	Loan interest rate
Crédit Agricole Corporate and Investment Bank Deutschland	2014	2029	190	Euro	Euribor 6M + 0,625%
UniCredit Bank Austria AG	2011	2026	128*	Euro	3,35%**
Russian bonds issued in February 2013	2013	2018***	20,000	RUB	8,50%
Russian bonds issued in July 2015	2015	2018	15,000	RUB	11,85%
Russian bonds issued in April 2016	2016	2019	15,000	RUB	10,35%
PAO Sberbank of Russia	2011	2020	20,000	RUB	8,30% / 9,30%****
PAO Sberbank of Russia	2013	2018	10,613	RUB	7,99% / 8,99%****
PAO Sberbank of Russia	2014	2022	2,776	RUB	MosPrime 3M + 2,10%

* As of December 31, 2016, the amount of the loan received amounted to EUR 86 million, the Company does not plan to use the remaining part of the limit, so the possibility of further sampling was canceled in 2016 by agreement with the creditor.

** Fixed interest rate is applied to 90% of the loan amount, variable quarterly interest rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25% is applied to the remaining 10% of the loan amount.

*** Bonds maturity is 10 years with the right of bond holders of early redemption in 5 years after the date of issue.

**** Variable quarterly interest rate determined due to agreement's conditions.

As of 31 December 2016, the total amount of long-term loans to be repaid within 12 months of the reporting date and reclassified to short-term category was RUB 10,619 million (31 December 2015: RUB 15,479 million) (see paragraph 3.5.1 of the Explanatory Notes).

Besides the credit limits from UniCredit Bank Austria AG, Crédit Agricole Corporate and Investment Bank Deutschland and EBRD which are not used in full as of 31 December 2016, the Company has opportunity to raise funds on credit agreements with Bank VTB (PAO) in the amount of RUB 30 000 million maturing at 2020 and with PAO Sberbank in the amount of RUB 40,000 million maturing at 2026, with Bank GPB (AO) in the amount of RUB 20,000 maturing at 2026 and with AB Rossia (AO) in the amount up to RUB 6,000 maturing at 2019.

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Ageing analysis:

Due for repayment	31 December 2016	31 December 2015	31 December 2014
From 1 to 2 years	46,495	11,396	15,483
From 2 to 3 years	16,480	48,455	1,272
From 3 to 4 years	21,105	1,743	31,885
From 4 to 5 years	1,355	22,090	1,272
Over five years	9,413	21,386	42,350
Total line 1410 "Borrowings"	94,848	105,070	92,262

Interest on borrowings included into the cost of investment assets

In 2016, the amount of interest on borrowings included into the cost of investment assets was RUB 3,262 million (2015: RUB 2,746 million), of which RUB 2,900 million was the interest accrued on borrowings where the agreement does not specify that the funds are provided for special investment purpose (2015: RUB 2,406 million).

3.4.2 Other non-current liabilities (line 1450 of the balance sheet)

Line 1450 "Other liabilities" includes long-term VAT on advances issued in the amount of RUB 1,289 million as of 31 December 2016 (31 December 2015: RUB 1,827 million, 31 December 2014: RUB 1,746 million) and trade payables in the amount of RUB 2,457 million as of 31 December 2016 (31 December 2015: RUB 368 million, 31 December 2014: RUB 589 million).

3.5 Current liabilities (Section V of the balance sheet)

3.5.1 Short-term borrowings (line 1510 of the Balance sheet)

Lender / creditor	Period	Opening balance	Received / accrued	Paid / settled	Closing balance
Borrowings, including:	2015	20,053	16,406	(20,209)	16,250
	2016	16,250	23,371	(28,254)	11,367
Russian bonds issued in April 2015	2015	-	-	-	-
	2016	-	10,000	-	10,000
OOO AlstomRusHydroEnergy	2015	-	750	-	750
	2016	750	-	-	750
UniCredit Bank Austria AG	2015	-	-	-	-
	2016	-	550	-	550
Russian bonds issued in April 2011	2015	-	15,000	-	15,000
	2016	15,000	-	(15,000)	-
European Bank for Reconstruction and Development (EBRD)	2015	-	377	-	377
	2016	377	10,653	(11,030)	-
RusHydro Finance Ltd	2015	20,000	-	(20,000)	-
	2016	-	-	-	-
Other	2015	53	279	(209)	123
	2016	123	2,168	(2,224)	67
Interest on borrowings, including:	2015	1,862	11,001	(10,173)	2,690
	2016	2,690	10,779	(10,811)	2,658
Russian bonds issued in July 2015	2015	-	858	-	858
	2016	858	1,782	(1,773)	867
Russian bonds issued in February 2013	2015	647	1,700	(1,695)	652
	2016	652	1,704	(1,695)	661
PAO Sberbank	2015	521	2,998	(2,991)	528
	2016	528	2,882	(2,888)	522
Russian bonds issued in April 2016	2015	-	-	-	-
	2016	-	1,157	(786)	371
Russian bonds issued in April 2015	2015	-	863	(636)	227
	2016	227	1,279	(1,272)	234
Russian bonds issued in April 2011	2015	237	1,200	(1,197)	240
	2016	240	374	(614)	-
European Bank for Reconstruction and Development (EBRD)	2015	174	1,838	(1,832)	180
	2016	180	1,338	(1,518)	-

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Lender / creditor	Period	Opening balance	Received / accrued	Paid / settled	Closing balance
RusHydro Finance Ltd	2015	280	1,295	(1,575)	-
	2016	-	-	-	-
Other	2015	3	249	(247)	5
	2016	5	263	(265)	3
Total line 1510 "Borrowings"	2015	21,915	27,407	(30,382)	18,940
	2016	18,940	34,150	(39,065)	14,025

3.5.2 Accounts payable (line 1520 of the balance sheet)

Total short-term accounts receivable were RUB 9,681 million, RUB 9,822 million and RUB 8,575 million as of 31 December 2016, 2015 and 2014, respectively:

Type of payables	31 December 2016	31 December 2015	31 December 2014
Trade payables	4 190	5 492	5 295
Settlements with personnel	24	669	823
Payables to state off-budget funds	14	135	119
Tax payables	4 697	3 103	1 923
Settlements with participants (founders) in payment of income	122	67	65
Settlements for the payment of own shares before the change of the charter capital in the constituent documents	33	-	-
Other	601	356	350
Total line 1520 "Accounts payable"	9 681	9 822	8 575

The balance sheet line 1521 "Trade accounts payable" includes the following types of payables:

Type of payables	31 December 2016	31 December 2015	31 December 2014
Payables to capital construction contractors	773	1,499	1,447
Payables to suppliers of equipment and other non-current assets	1,801	2,071	2,073
Payables for purchase of electricity and capacity	432	774	856
Payables to suppliers of repair and maintenance services	322	405	276
Other	862	743	643
Total line 1521 "Trade accounts payable"	4,190	5,492	5,295

The balance sheet line 1524 "Taxes payable" includes current payables on the following taxes:

Tax	31 December 2016	31 December 2015	31 December 2014
Property tax payable	1,338	1,494	1,343
VAT payable	3,113	1,480	464
Income tax payable	239	-	-
Other taxes payable	7	129	116
Total line 1524 "Taxes payable"	4,697	3,103	1,923

3.5.3 Estimated liabilities (line 1540 of the balance sheet)

As of 31 December 2016 the total estimated liabilities are RUB 2,447 million (31 December 2015: RUB 601 million, 31 December 2014: RUB 1,405 million).

The estimated liability for forthcoming payment of earned but unused employee vacations has a short-term nature.

Item	Period	Opening balance	Recognised	Settled	Written off as surplus	Closing balance
Estimated liabilities, including:	2015	1,405	1,342	(1,789)	(357)	601
	2016	601	3,057	(958)	(253)	2,447
for remuneration payments	2015	-	-	-	-	-
	2016	-	1,364	-	-	1,364
for litigation	2015	728	-	(667)	-	61
	2016	61	627	(61)	-	627
for forthcoming payment of earned but unused employee vacations	2015	554	1,342	(999)	(357)	540
	2016	540	1,066	(897)	(253)	456
Other	2015	123	-	(123)	-	-
	2016	-	-	-	-	-

3.6 Off-balance-sheet valuables

3.6.1 Leased property, plant and equipment

As of 31 December 2016, the total rented property, plant and equipment are RUB 33,862 million (31 December 2015: RUB 38,490 million, 31 December 2014: RUB 34,097 million). In 2016, the Company did not receive any property, plant and equipment under lease contracts.

The Company rented and received items of property, plant and equipment under lease contracts from the following entities:

Lessor	31 December 2016	31 December 2015	31 December 2014
AO Sulakskiy HydroKaskad	9,463	9,721	-
Ministry of Property Relations of Moscow region	4,956	4,956	4,956
AO Zaramagskie GES	4,927	5,042	5,042
AO Malaya Dmitrovka	3,381	3,391	3,349
Territorial Office of Federal Property Management Agency (Rosimyschestvo) in the Stavropol Territory	3,185	2,549	2,549
Perm Department of Land and Property Relations	1,307	1,350	1,350
Novosibirsk Department of Land and Property Relations	777	779	779
Territorial Office of Federal Property Management Agency (Republic of Udmurtia)	16	943	943
Territorial Office of Federal Property Management Agency in the Irkutsk Region	-	1,727	3,675
Department of Property and Land Relations of Kochubeevsky region	-	1,060	1,060
Other	4,659	4,703	4,446
Total rent of property, plant and equipment	32,671	36,221	28,149
OOO Leasefinance	1,022	1,022	1,844
ZAO Business Alliance	169	321	321
OOO RB-Leasing	-	829	1,894
OOO IR-Leasing	-	-	1,792
Other	-	97	97
Total lease of property, plant and equipment under lease contracts	1,191	2,269	5,948
Total rent and lease of property, plant and equipment	33,862	38,490	34,097

PAO RusHydro**Explanatory Notes to the 2016 Balance sheet and Statement of Financial Results**

(in millions of Russian Roubles unless otherwise stated)

3.6.2 Collateral for liabilities and payments received

Counterparty	31 December 2016	31 December 2015	31 December 2014
PAO Silovye Mashiny	8,780	8,655	3,018
Voith Hydro GmbH & Co KG	5,433	7,041	4,840
OOO EZOP	5,428	5,428	5,428
OOO Vostok-finans	2,106	-	-
AO Hydroinvest	984	3,919	3,919
AO Transport company Rushydro	511	511	491
OAO Hydroelectromontazh	453	453	-
AO VNIIR Hydroelectroavtomatika	429	424	255
AO TEK Mosenergo	392	405	679
OAO Trest Hydromontazh	390	-	-
ZAO A-security	194	294	398
Alstom Hydro France	67	67	1,106
OOO Alstom	-	-	273
Other	1,886	2,421	2,715
Total collateral for liabilities and payments received	27,053	29,618	23,122

The Company received its own shares purchased by OOO EZOP and AO Hydroinvest as a pledge to secure loans issued for the purpose of acquisition of the Company's shares by OOO EZOP and AO Hydroinvest (see paragraph 3.2.2 of the Explanatory Notes).

For a number of agreements for delivery of equipment and capital construction with Voith Hydro GmbH & Co KG, PAO Silovye Mashiny, OAO Hydroelectromontazh, AO VNIIR Hydroelectroavtomatika, AO TEK Mosenergo and others the Company received bank guarantees for return, in full or in part, of the advances issued to these entities or due fulfilment of the contractual scope of work by these entities.

According to property sales contracts bearing interest for payment by instalments to be made by AO Transport company RusHydro, the sold property for RUB 511 million was pledged.

3.6.3 Collateral for liabilities and payments issued

The Company issued the following collaterals and guarantees:

Creditor	Debtor	31 December 2016	31 December 2015	31 December 2014
GC Vnesheconombank	PAO Boguchanskaya GES	47,777	48,426	49,133
PAO VTB Bank	AO Far East Generating Company	11,556	4,522	4,522
PAO Sberbank	AO Far East Generating Company	10,760	7,102	-
GC Vnesheconombank	ZAO Boguchansky Aluminium Smelter	4,615	4,615	4,615
PAO Sberbank	PAO Kamchatskenergo	3,978	3,978	3,979
Rosbank AKB PAO	PAO Far East Energy Company	3,313	-	-
European Bank for Reconstruction and Development (EBRD)	PAO RAO ES of East	3,276	3,695	4,097
PAO Sberbank	PAO RAO ES of East	2,878	2,095	-
Rosbank AKB PAO	AO Far East Generating Company	2,704	851	-
PAO VTB Bank	PAO RAO ES of East	1,831	-	-
European Bank for Reconstruction and Development (EBRD)	ZAO International Energy Corporation	1,538	1,845	1,417
Asian Development Bank,	ZAO International Energy	1,538	1,845	1,415

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PAO RusHydro**Explanatory Notes to the 2016 Balance sheet and Statement of Financial Results**

(in millions of Russian Roubles unless otherwise stated)

Creditor	Debtor	31 December 2016	31 December 2015	31 December 2014
ADB	Corporation			
Bank GPB (AO)	PAO RAO ES of East	1,323	-	-
Bank GPB (AO)	PAO Magadanenergo	1,012	401	-
AO Russian Regional Development Bank	PAO Magadanenergo	900	-	-
PAO Sberbank	AO Chukotenergo	860	-	-
PAO Sberbank	AO Sakhalinenergo	651	651	651
PAO Sberbank	PAO Magadanenergo	500	-	-
PAO Sberbank	PAO Far East Energy Company	-	5,531	-
European Investment Bank	PAO RAO ES of East	-	4,012	2,326
Bank GPB (AO)	AO Far East Generating Company	-	1,002	-
Bank GPB (AO)	PAO Far East Energy Company	-	762	-
AO TEK Mosenergo	AO Yakutskaya GRES-2	-	-	15,000
OAO Bank of Moscow	AO Far East Generating Company	-	-	7,042
PAO VTB Bank	PAO Far East Energy Company	-	-	4,921
ZAO ING BANK (EURASIA)	AO Yakutskaya GRES-2	-	-	3,156
OAO Bank of Moscow	OAO Sakhalinenergo	-	-	499
Other	Other	916	1,424	1,331
Total collateral for liabilities and payments issued		101,926	92,757	104,104

In 2016 the Company issued guarantees:

- in terms of liabilities of AO Far East Generating Company the credit agreement with PAO Sberbank, Bank GPB (AO) and PAO Rosbank AKB. The guarantee covers the amount of credit and interest accrued. Maturity date – 2019.
- in terms of liabilities of PAO RAO ES of East the credit agreement with GPB (AO) and Bank VTB (AO). The guarantee covers the amount of credit and interest accrued. Maturity dates – 2019 and 2030.
- in terms of liabilities of PAO Magadanenergo the credit agreement with AO Russian Regional Development Bank and PAO Sberbank. The guarantee covers the amount of credit and interest accrued. Maturity dates – 2020 and 2021.
- In terms of liabilities of AO Chukotenergo credit agreement with PAO Sberbank. The guarantee covers the amount of credit and interest accrued. Maturity dates – 2020 and 2021.

Guarantees issued by the Company for liabilities of OAO Boguchanskaya GES under its loan agreement with GC Vnesheconombank include:

- total liabilities of PAO Boguchanskaya GES under the loan agreement, including accumulated interest in the amount of RUB 26,750 million as of 31 December 2016 (31 December 2015: RUB 27,399 million);
- pledge of PAO Boguchanskaya GES's interest-free promissory notes for the total of RUB 21,027 million (see Note 3.2.2 of the Explanatory Notes) and pledge of shares for the total of RUB 14 thousand.

RUSAL Group undertakes to reimburse the Company for 50 percent of liabilities settled under this guarantee by the Company for PAO Boguchanskaya GES.

PAO RusHydro
Explanatory Notes to the 2016 Balance sheet and Statement of Financial Results
(in millions of Russian Roubles unless otherwise stated)

3.7 Income and expenses on operating activities (statement of financial results)

3.7.1 Revenue (line 2110 of the statement of financial results)

Revenue from sales of electricity and capacity has the largest percentage in the Company's revenue structure (99,3%).

Item	2016	2015
Sale of electricity	77,338	73,262
Sale of capacity	36,833	32,583
Sale of heat	168	154
Other	694	1,100
Total line 2110 "Revenue"	115,033	107,099

The Company sells a major part of its produced electricity and capacity (99,9%) on the wholesale electricity and capacity market, where sales are made at non-regulated prices (except for sales at regulated tariffs in the RF Far East non-pricing zone and volumes produced for selling to households or equivalent consumer categories).

3.7.2 Cost of sales (line 2120 of the statement of financial results)

Item	2016	2015
Depreciation and amortisation	15,213	14,257
Wages and social insurance contributions	9,408	10,113
Purchased electricity and capacity	7,023	13,970
Property tax	6,771	6,640
Repairs and maintenance	3,724	4,109
Third party services	3,720	3,725
Fees for administering the wholesale market of electricity and capacity (AO SO UES, AO ARS, AO CFR)	2,813	2,884
Fire and other security services	1,730	1,729
Insurance expenses	1,710	1,482
Lease expenses	1,579	1,230
Water usage expenses, water tax	1,267	934
Lease of power equipment	186	479
Other expenses	1,212	2,417
Total line 2120 "Cost of sales"	56,356	63,969

Operating expenses include contributions to non-state pension fund AO NPF of Electrical Energy Industry. The type of pension plan for the Company's personnel is the defined benefit plan.

Operating expenses broken down by cost elements are as follows:

Item	2016	2015
Material expenses	17,122	19,056
Payroll expenses	7,570	8,217
Social contributions	2,142	1,896
Depreciation and amortisation	15,213	14,257
Other costs	14,309	20,543
Total for elements of costs	56,356	63,969
Change in balances of work in progress, finished goods, etc. (increase [-] / decrease [+])	-	-
Total expenses incurred on operating activities	56,356	63,969

3.8 Other income and expenses (line 2340 and line 2350 of the statement of financial results)

Item	2016		2015	
	Income	Expenses	Income	Expenses
Income and expenses from sales, write-off and other transactions with assets	9,847	(7,987)	516	(2,518)
Gains / (losses) from revaluation of investments measured at current market value	5,544	(12)	1,110	(329)
Foreign exchange differences from remeasurement of assets and liabilities denominated in foreign currencies	4,789	(2,306)	7,167	(8,840)
Doubtful debt provision	2,368	(8,283)	3,490	(2,650)
Charity donations	-	(462)	-	(553)
Expenses for social events	-	(457)	-	(573)
Provision for impairment of investments	14	(17,658)	49	(3,147)
Gain and loss on sale of promissory notes	-	-	784	(784)
Income and expenses due to sale or other disposal of securities (exception promissory notes)	-	-	11	(114)
Other income and expenses	1,192	(1,171)	1,878	(888)
Total line 2340 "Other income" and 2350 "Other expenses"	23,754	(38,336)	15,005	(20,396)

3.9 Taxes

Value Added Tax

Total VAT calculated with due account of recovered tax amounts was RUB 35,173 million in the reporting year (2015: RUB 30,664 million), including:

- VAT calculated on sales of goods (work, services) is RUB 22,396 million (2015 RUB 19,286 million);
- VAT calculated on the amounts of received payment or partial payment for goods (work, services) to be delivered in the future is RUB 10,652 million (2015: RUB 9,415 million);
- recoverable amount of tax is RUB 2,125 million (2015: RUB 1,963 million).

Total VAT recoverable in the reporting period was RUB 21,383 million (2015: RUB 22,008 million), including:

- VAT recoverable invoiced to the taxpayer on acquisition of goods (work, services), property rights in Russia was RUB 8,839 million (2015: RUB 9,637 million);
- VAT calculated on the amounts of received payment or partial payment for goods (work, services) to be deducted from their delivery date was RUB 10,652 million (2015: RUB 9,416 million);
- VAT calculated on the amounts of payment or partial payment for goods (work, services) to be delivered in the future was RUB 1,352 million (2015: RUB 2,161 million);
- VAT recovered in 2016 which was paid earlier when the goods were imported to the Russian customs territory was RUB 539 million (2015: RUB 789 million);
- other recoverable VAT was RUB 1 million (2015: RUB 5 million).

The Company decreases the calculated VAT by the amount invoiced on purchase of goods (work, services) in Russia, according to tax legislation.

Corporate income tax

Income tax calculated on the basis of the accounting profit (theoretical income tax charge) for the reporting year was RUB 10,877 million (2015: RUB 7,851 million).

The Company applied tax rate of 20% in the calculation of income tax based on accounting profit received by the Company's branches (excluding profits received by branches Kamsksya GES and Votkinskaya GES that apply 17% rate).

According to the tax accounting data, the taxable profit for 2016 was RUB 56,327 million (2015: RUB 34,424 million).

In the reporting year, the amount of non-temporary differences which affected the theoretical income tax charge adjustment for the purposes of income tax calculated for tax accounting purposes (current income tax) was RUB 8,949 million (2015: RUB 9,607 million).

The above non-temporary differences arise from differences in recognising certain income and expenses for accounting and income tax purposes.

Non-temporary differences resulted in permanent tax assets amounted to RUB 15,124 million for 2016 (2015: 4,078 million), including:

- income from participation in other entities (dividends) in the amount of RUB 9,367 for 2016 (2015: RUB 779 million);
- increase in value of financial placements determined in fair value in the amount of RUB 5,532 million (2015: RUB 780 million);
- other non-temporary differences in the amount of RUB 225 million (2015: RUB 2,519 million).

Non-temporary differences resulted in the permanent tax liability amounted to RUB 24,073 million for 2016 (2015: 13,685 million), including:

- depreciation of RUB 3,254 million (2015: RUB 4,011 million);
- charges to doubtful debt provision in the amount of RUB 894 million (2015: RUB 944 million);
- charity donations in the amount of RUB 462 million (2015: RUB 553 million);
- expenses related to sale, disposal or other transactions with assets in the amount of RUB 530 million (2015: RUB 2,115 million);
- financial support and other social payments to employees in the amount of RUB 17,658 million (2015: RUB 3,147 million);
- other non-temporary differences in the amount of RUB 1,274 million (2015: RUB 2,915 million).

The total amount of deductible temporary differences, which affected the adjustment of the theoretical income tax charge for the purpose of the current income tax calculated for tax accounting purposes, was RUB 6,934 million (2015: RUB (803) million), including those originated – RUB 11,724 million (2015: RUB 452 million) and settled – RUB 4,790 million (2015: RUB 1,255 million).

Total amount of taxable temporary differences that affected the theoretical income tax expense adjustment for the purpose of the income tax calculation for tax accounting purposes, was RUB 13,080 million (2015: RUB 14,038 million), including those originated – RUB 21,776 million (2015: RUB 19,469 million) and settled – RUB 8,696 million (2015: RUB 5,431 million).

In 2016, movement in deductible and taxable temporary differences was mainly due to:

- different useful lives of property, plant and equipment for accounting and income tax purposes;
- recognition of depreciation premium on items of property, plant and equipment for income tax purposes;
- application of multiplying factor for accrual of depreciation charges on property, plant and equipment used in operations in a hostile environment with a high turnover for tax accounting purposes in prior periods;
- capitalisation of interest on borrowings in the cost of investment assets for accounting purposes;
- including the costs of insurance in the value of investment assets in the accounting records of the Company.

Deferred tax assets and deferred tax liabilities were:

Item	31 December 2016	31 December 2015	31 December 2014
Deferred income tax assets	(3,248)	(1,864)	(2,343)
Deferred tax liabilities	16,924	14,266	12,015
Total line 1420 "Deferred tax liabilities"	13,676	12,402	9,672

Line 2430 "Change in deferred tax liabilities" includes increase of deferred tax liabilities in amount of RUB 39 million with no effect on current income tax. Line 2450 "Change in deferred tax assets" includes increase of deferred tax assets in amount of RUB 231 million with no effect on current income tax. These amounts relate to adjustments of prior periods due to change in temporary differences classification.

Other taxes and levies

In 2016, operating expenses include other taxes and levies in the amount of RUB 8,384 million (2015: RUB 8,430 million), including:

- property tax in the amount of RUB 6,771 million (2015: RUB 6,640 million), including accrual provision for estimated liabilities for property tax;
- insurance contributions to the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation and obligatory medical insurance funds in the amount of RUB 1,596 million (2015: RUB 1,774 million), including contributions related to estimated liabilities on future payment of employee vacations earned but not used;
- other taxes and levies in the amount of RUB 17 million (2015: RUB 16 million).

Relations with tax authorities

Russian tax legislation active or effective as of the end of the reporting period allows varying interpretation of the separate facts of the Company's economic life. As a consequence, the position of the Company's management in terms of taxes and documents substantiates this position may be challenged by tax authorities. The tax control in Russian Federation gets stringent resulting in increase of tax inspections risk. These inspections may cover 3 calendar years preceding the year when the decision about inspection was made. In some cases the earlier periods may be examined.

As of 31 December 2016, the Company's management believe that their interpretation of the relevant legislation was appropriate, tax liabilities are recorded in full and the Company's tax and currency positions will be sustained.

In 2016, the tax authorities conducted an on-site tax audit for 2012-2014, according to which the Company was presented claims, part of which were successfully challenged by the Company. For the rest of the claims, the Company will file an appeal with the higher tax authority and, if necessary, intend to appeal the claims in court in the future.

3.10 Dividends

The Company's annual general meeting of shareholders held on 27 June 2016 (Minutes No. 15) made the decision to pay dividends on the Company's ordinary shares for 2015 in the amount of RUB 0,038863 per 1 share for the total of RUB 15,011 million.

The Company's annual general meeting of shareholders held on 26 June 2015 (Minutes No. 13) made the decision to pay dividends on the Company's ordinary shares for 2014 in the amount of RUB 0,01561855 per 1 share for the total of RUB 6,033 million.

3.11 Earnings per share

Basic earnings per share reflect a portion of reporting period's profit that may be potentially distributed between the shareholders – owners of ordinary shares. It is calculated by dividing basic profit of the reporting year by the weighted average number of ordinary shares outstanding during the year. Basic profit is equal to net profit of the reporting year (Line 2400 of the statement of financial results).

Item	2016	2015
Basic profit for the reporting year (RUB million)	41,877	30,022
Weighted average number of ordinary shares, outstanding during the reporting year (shares)	386,255,464,890	386,255,464,890
Basic earnings per share (RUB)	0.10842	0.07773

Weighted average number of ordinary shares, outstanding during the reporting year was calculated as follows:

Item	2016
Number of ordinary shares outstanding as of 1 January 2016 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 1 December 2016 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 31 December 2016 (shares)	386,255,464,890
Weighted average number of ordinary shares, outstanding in 2016 (shares) (386,255,464,890 * 12 months) / 12 months	386,255,464,890
Item	2015
Number of ordinary shares outstanding as of 1 January 2015 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 1 December 2015 (shares)	386,255,464,890
Number of ordinary shares outstanding as of 31 December 2015 (shares)	386,255,464,890
Weighted average number of ordinary shares, outstanding in 2015 (shares) (386,255,464,890 * 12 month) / 12 months	386,255,464,890

In 2016 and 2015, the Company had no debt securities potentially convertible to shares.

3.12 Related Parties

The Company's related parties are its subsidiaries and associates and other entities where the Company has indirect control or significant influence through its subsidiaries and associates.

The list of the Company's related parties is given on the web-site – www.rushydro.ru/investors/disclosure/affiliated

3.12.1 Controlling entity

As of 31 December 2016 the Company is controlled by the Russian Government (represented by the Federal Agency for Federal Property Management) which owns, 66,84% of the Company's ordinary shares (see paragraph 3.3.1 of the Explanatory Notes).

3.12.2 Sales to related parties

Total revenue from sales to related parties was:

Name of the buyer	2016	2015
Revenue from sales to subsidiaries, including:		
PAO Far East Energy Company	6,148	5,722
OOO ESK Bashkortostana*	2,018	1,266
PAO Krasnoyarskenergosbyt	854	836
AO Chuvashskaya Energy Sales Company	634	1,562
PAO Ryazanskaya Energy Sales Company	234	245
AO ESK RusHydro	197	163
Other subsidiaries	117	144
Revenue from sales to related parties, including:		
ZAO Boguchanskiy Alluminievy zavod	668	679
PAO Boguchanskaya GES	110	35
Total sales to related parties	10,980	10,652

* OOO ESK Bashkortostana was the related party until 01 December 2016

Sales to related parties include, among others, sales of electricity and capacity in the regulated sector of WEM at tariffs determined by the Federal Tariff Service and in the competitive sector at commercial prices established in accordance with the Wholesale Market Rules and Regulation of the Russian Government No. 109 of 26 February 2004, On Pricing of Electric and Heating Energy in the Russian Federation, and Regulation on the Company's sales policy for operating generation

assets in the price zones of the wholesale electricity (capacity) market (minutes of the meeting of the Management Board No. 528 of 17 September 2010).

3.12.3 Purchases from related parties

The cost of services provided by related parties was:

Supplier	2016	2015
Repair and technical maintenance services, including:		
Subsidiaries		
AO Hydroremont-BKK	2,855	3,303
OOO RusHydro IT Service	95	-
Other	109	79
Total repair and maintenance services	3,059	3,382
Transport service, including:		
Subsidiaries		
AO Transport company RusHydro	1,271	1,502
Total transport services	1,271	1,502
Rent of premises, territories and other property, including:		
Subsidiaries		
AO Malaya Dmitrovka	514	566
AO Sulakskiy Hydrocascade	428	50
AO Zaramagskie GES	253	260
AO Transport company RusHydro	106	41
Other	100	93
Total rent of premises, territories and other property	1,401	1,010
Works and services in testing, trials and research, including:		
Subsidiaries		
AO Vedeneyev VNIIG	237	159
AO NIIES	180	248
Other	31	100
Total works and services in testing, trials and research	448	507
Electricity purchases	1	1
Other services of third parties	402	545
Total purchases from related parties	6,582	6,947

3.12.4 Settlements with non-state pension fund

Non-state Pension Fund of Electrical Energy Industry is the non-state pension fund for implementation of the non-governmental pension security program for the Company's employees. The total amount of contributions to the pension fund was RUB 275 million and RUB 324 million for 2016 and 2015, respectively.

3.12.5 Settlements with related parties

As of 31 December 2016, 2015 and 2014, accounts receivable from related parties to the Company less doubtful debt provision were (see paragraph 3.2.2 of the Explanatory Notes):

Type of accounts receivable	31 December 2016	31 December 2015	31 December 2014
Short-term interest-free promissory notes received	5,457	20,767	18,846
Short-term interest-free loans issued	30,700	12,879	26,325
Long-term interest-free promissory notes received	25,689	25,689	25,689
Accounts receivable from subsidiaries as part of additional issues before title for the shares issued is transferred to the Company	22,997	7,951	11,805
Indebtedness under the assignment agreement	8,257	-	-
Long-term interest-free loans issued	10,897	3,099	1,183
Accounts receivable related to other sales	1,217	1,574	1,458

Type of accounts receivable	31 December 2016	31 December 2015	31 December 2014
Other settlements with related parties	5,673	8,213	8,491
Total accounts receivable from related parties	110,887	80,172	93,797

Terms and conditions of settlements with related parties provide for the Company to make advance payments on transactions with individual related parties. As of 31 December 2016 balances include advances issued for the amount of RUB 3,334 million (31 December 2015: RUB 5,926 million, 31 December 2014: RUB 5,116 million).

Doubtful debt provision for related parties' accounts receivables as of 31 December 2016 was RUB 5,904 million (31 December 2015: RUB 291 million; 31 December 2014: RUB 48 million).

As of 31 December 2016, 2015 and 2014, the Company's accounts payable to the related parties were:

	31 December 2016	31 December 2015	31 December 2014
Subsidiaries	1,164	2,707	914
Associates	-	-	30
Other related parties	81	750	-
Total accounts payable to related parties	1,245	3,457	944

The whole amount accounts payable to related parties is payable in cash.

3.12.6 Related parties' debt within investments

As of 31 December 2016, 2015 and 2014, The Company's investments include the following amounts due from related parties (see paragraphs 3.1.2 and 3.2.3 of the Explanatory Notes):

Type of financial investments	31 December 2016	31 December 2015	31 December 2014
Loans issued to related parties	28,315	57,102	44,178
Other investments	601	601	-
Total related parties' debt within investments	28,916	57,703	44,178
Total debt within long-term investments (Line 1170 of the Balance sheet)	27,686	52,433	34,039
Total debt within short-term investments (Line 1240 of the Balance sheet)	1,230	5,270	10,139

Interest income on loans issued to related parties and promissory notes received from related parties:

Entity	2016	2015
Subsidiaries, including:	4,986	4,608
AO Far East Generating Company	1,372	1,570
AO Hydroinvest	1,031	168
AO Far East Distribution Grid Company	697	892
AO Nizhne-Bureyskaya GES	424	312
AO Zagorskaya GAES-2	355	588
AO ESK RusHydro	315	250
AO Sakhaenergo	278	278
AO Ust-Srednekanskaya GES	163	156
Other	351	342
Other subsidiaries	61	52
Total interest income	5,047	4,660

3.12.7 Income from investments in other companies (related parties)

Income from investments in other companies includes income from investments in subsidiaries in the amount of RUB 9,447 million for 2016 (2015: RUB 775 million):

Entity	2016	2015
HydroOGK Power Company Ltd	8 257	-
AO GVTS Energetiki	698	-
OAO Hydroremont-BKK	191	339
AO Lenhydroproject	114	172
AO NIIES	-	118
Other	187	146
Total income from investments in subsidiaries	9 447	775

In 2016, dividends were received from HydroOGK Power Company Ltd in the amount of RUB 8,257 million in non-monetary form by way of assignment of accounts receivable of the subsidiary company of HC Boguchanskaya HPP classified as part of other short-term accounts receivable of the Company as of December 31, 2016 (see paragraph 3.2.2 of the Explanatory Note).

3.12.8 Remuneration to key management personnel

The Company's key management personnel includes members of the Board of directors and Management Board and also includes heads of the Company's business divisions and their deputies.

The remuneration to the members of the Board of directors is calculated according to the *Regulations on the payment of remuneration to PAO RusHydro's directors* approved by the Annual General Meeting of Shareholders held on 30 June 2010 (Minutes No. 5).

Remuneration is paid to members of the Management Board and other management personnel of the Company for their services in management positions and is made up of a contractual salary and performance bonuses depending on the results for the period calculated based on key performance indicators approved by the Company's Board of directors.

The list of members of the Company's Board of directors and Management Board is included in paragraph 1.1 of the Explanatory Notes).

In 2016 and 2015, the Company remuneration to key management personnel within the limits set out in their employment agreements for the total amount of RUB 666 million and RUB 1,475 million, respectively. The insurance contributions amounted to RUB 146 million for 2016 (2015: 236 million). In addition, in 2016, an appraisal obligation was established for premiums to key management personnel in the amount of RUB 165 million.

3.12.9 Cash flows between the Company and subsidiaries/associates

Item	Line code	2016	2015
Cash flows from operating activities			
Receipts, including:	4110	8,896	7,872
sales of products, goods, work and services	4111	8,818	7,804
lease payments, licence payments, royalties, commission and other payments	4112	62	66
other receipts	4119	16	2
Payments, including:	4120	(6,447)	(7,229)
suppliers (contractors) – raw materials, work and services	4121	(6,329)	(7,157)
interest on debt liabilities	4123	(17)	-
other payments	4129	(101)	(72)
Net cash flows from operating activities	4100	2,449	643
Cash flows from investing activities			
Receipts, including:	4210	29,886	19,324
sale of non-current assets (except for investments)	4211	95	137
sale of shares of other organisations (ownership interest)	4212	-	10
repayment of loans issued, sale of debt securities (rights of claiming cash to third parties)	4213	22,400	13,674

Item	Line code	2016	2015
dividends, interest on debt investments and similar proceeds from equity participation in other organisations	4214	5,351	5,469
other receipts	4219	2,040	34
Payments, including:	4220	(40,108)	(55,731)
acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(6,256)	(5,983)
purchase of shares (interest) in other entities	4222	(23,829)	(34,665)
acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	4223	(10,023)	(15,083)
Net cash flows from investing activities	4200	(10,222)	(36,407)
Cash flows from financing activities			
Receipts, including:	4310	719	1,970
borrowings and bank loans	4311	719	1,970
Payments, including:	4320	(1,090)	(143)
redemption (buyback) of promissory notes and other debt securities, loan repayment	4323	(1,090)	(143)
Net cash flows from financing activities	4300	(371)	1,827
Net cash flows for the reporting period	4400	(8,144)	(33,937)

3.13 Segment Information

The Company does not identify any reporting segments in its operations, as the Company's core business activity is production of electricity and capacity – their share in the revenue from sales is 99,3%. The individuals credentialed to make the decisions concerning allocation of the resources within the Company and assess the results of its performance analyse the Company's activity as a whole segment.

3.14 Contingent liabilities

As of 31 December 2016, the Company had outstanding issued guarantees to the third parties' creditors and pledged assets for the total amount of RUB 101,926 million (31 December 2015: RUB 92,757 million, 31 December 2014: RUB 104,104 million) (see paragraph 3.6.3 of the Explanatory Notes). According to the Company's management expectations, no material liabilities will arise in connection with these guarantees.

Moreover, the prosecutor's office and other oversight bodies examined operations of the Company, and this also may result in additional claims filed against the Company and its employees.

The Russian transfer pricing legislation is aligned with the international principles developed by the Organisation for Economic Cooperation and Development (OECD). The legislation allows tax authorities to assess additional taxes for controlled transactions (transactions between related parties and some transactions between unrelated parties) if such transactions are not on an arm's length basis. The Company's management has implemented internal control procedures to ensure compliance with transfer pricing law.

Tax liabilities arising as a result of operations between the Company and its subsidiaries are determined based on the actual transaction price. There is a probability that the prices may be disputed as practice for application of the transfer rules changes. The effect of such course of events cannot be estimated reliably but may have a material effect on the Company's financial results and/or operations.

New provisions aimed at deoffshorisation of Russian economy have been added to the Russian tax legislation and are effective from 1 January 2015. Specifically, they introduce new rules for controlled foreign companies, a concept of beneficiary owner of income for the purposes of application of preferential provisions of taxation treaties of the Russian Federation. Management of the Company conducts analysis of impact of new rules on Companies' activity and takes necessary measures to meet new requirements of Russian Tax legislation. Likelihood of claims from Russian tax authorities (and probability of positive resolution of disputes) can't be reliably

measured because there's no practice of new tax rules. Financial statements of the Company can be affected if tax disputes arise.

3.15 Financial risk management

The primary objectives of the financial risk management function are to provide reasonable assurance of achieving the Company's goals by developing a methodology of risk identification, analysis and assessment, as well as to establish risk limits, and then ensure that exposure to risks stays within these limits and if the limits are exceeded – to treat this risk accordingly.

Market risks

Market risks include currency risk, interest rate and price risks.

Currency risk. The Company sells its produced electricity and capacity in the Russian domestic market at prices denominated in national currency, settlements with resources suppliers, charge and acceptance of payments from the customers are made specifically in Russian roubles. Liabilities of the Company are denominated in national currency; share of liabilities denominated in foreign currency is amounted to less than 15%. As a result effect of changes in currency exchange rates on the Company's financial position and activities is estimated as insignificant. The Company's operations are planned and carried out in such a way that all its assets and liabilities are denominated in the national currency.

Information on the Company's exposure to currency risk is presented in line with its use for the preparation of RusHydro Group's IFRS financial statements as defined in IFRS 7:

	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
31 December 2016			
US Dollars	547	-	547
Euro	-	(11,716)	(11,716)
Total	547	(11,716)	(11,169)
31 December 2015			
US Dollars	3,096	-	3,096
Euro	-	(15,426)	(15,426)
Total	3,096	(15,426)	(12,330)
31 December 2014			
US Dollars	1,700	-	1,700
Euro	2,321	(13,449)	(11,128)
Total	4,021	(13,449)	(9,428)

The above analysis includes only monetary assets and liabilities. Investments in shares and non-monetary assets are not considered to give rise to significant currency risk.

Changes in exchange rates have no significant influence on the Company's financial position.

Interest rate risk. The Company's operating profits and cash flows from operating activity are substantially independent of the changes in market interest rates.

The effect of changes in the average market interest rates on the value of the Company's investments is insignificant as the rates of return on the Company's investments are fixed.

The Company also receives loans with floating interest rates based on MOSPRIME, Euribor rates, which leads to risk of changes in interest rates. At the same time, the share of borrowed funds with a fixed interest rate is 91% of the Company's loan portfolio. The influence of changes in these rates on the Company's profit is insignificant.

The Company monitors interest rate risk for its financial instruments. Effective interest rates as of the end of the period are presented in paragraph 3.4.1 of the Explanatory Notes.

To mitigate the interest rate risk, the Company takes the following measures:

- monitors the credit market to identify favourable terms of financing;
- diversifies credit portfolio by raising fixed and floating rate loans.

Price risk. The Company sales power and capacity, mainly, in the wholesale market. The price risk at the wholesale market is connected with possible volatility of the prices, and also with reduction of prices of the corresponding goods.

Electricity at the wholesale market is realized by Company mainly at the market for the days ahead. Weighted average price of sale of electricity for the days ahead for the Company in 2016 didn't change significantly in comparison with an indicator of 2015.

As the key instrument for trading capacity in the wholesale market is the contracts for purchase and sale of capacity by results of competitive selection of capacity. The price of capacity, based on which liabilities under such contracts are calculated, after the transition in 2015 to long-term model of competitive selection of capacity, is determined by results of competitive selections of capacity for four years ahead. The price differences on capacity created following the results of competitive selections of capacity for 2016-2020, make no more than 5% for each price zone.

At the liberalized market of the electric power the price of goods directly depends on demand amount. For the purpose of increase in a financial result of economic activity Company considers the seasonal, week and daily changes in demand on the electric power in case of sales planning of the electric power.

The price risk determines the possible changes / fluctuations in the fair value or future cash flows due to changes in market prices (excluding changes leading to interest rate or currency risk).

The table below includes the Company's investments exposed to the price risk.

Category of investments	31 December 2016	31 December 2015	31 December 2014
Equity investments for which current market value can be determined, including:			
PAO Inter RAO	7,818	2,286	1,505
PAO Irkutskenergo	7,709	2,217	1,445
PAO Krasnoyarskaya GES	65	36	25
PAO Krasnoyarskaya GES	44	33	35
Equity investments to subsidiaries measured at current market value but not revalued as of the reporting date	20,204	20,204	20,204
Equity investments for which current market value cannot be determined	236,565	245,174	208,604
Total equity investments (see paragraph 3.1.2 of the Explanatory Notes)	264,587	267,664	230,313

Current market value of quoted securities is determined by market prices established on the stock exchange OAO MICEX-RTS (www.rts.micex.ru), according to the 'Procedure for determining market value of securities, estimated price of securities and the threshold for the fluctuations of securities' market price for the purpose of Chapter 23 of the Russian Tax Code approved by Order of the Federal Service for Financial Markets No. 10-65/pz-n of 9 November 2010.

Credit risk

Credit risk is the possibility of the Company's losses resulting from the counterparty's inability to meet its obligations under the contract. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Although collectability of receivables can be influenced by economic factors, management believe that there is no significant risk of loss to the Company beyond the provision for impairment of receivables already recorded.

Cash has been placed in financial institutions, which are considered at the time of deposit to have minimal risk of default. The Company approves deposit banks as well as rules for making cash deposits. The Company performs regular review of financial institutions, monitors their ratings assigned by independent agencies as well as other performance indicators of these financial institutions.

Summary information on cash deposits and their equivalents including names of banks and other financial institutions and their ratings as of the end of the reporting period is provided in paragraph 3.2.4 of the Explanatory Notes.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Efficient liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of additional funding through an adequate amount of committed credit facilities. The Group follows the balanced model of working capital financing when both long-term and short-term sources of finance are used. The Company places available cash to short-term financial instruments, mainly, bank deposits and short-term bank promissory notes. Short-term liabilities are represented mainly by trade accounts payable.

The Company has implemented controls over the contracting process by using standard financial procedures that include standard payment structure, standard payment time, standard correlation between the advance and final settlement amounts, etc. This way the Company controls the maturity structure of capital.

The ageing analysis for long term borrowings is presented in paragraph 3.4.1 of the Explanatory Notes.

3.16 Subsequent events

Additional issue of new shares. In January 2017 the Company resumed the results of execution of pre-emptive right by eligible shareholders to acquire Company's shares of additional issue, registered by Bank of Russia on 7 December 2016. During the pre-emptive right period the Company placed 33,348,661 additional shares priced at RR 1,00 per share, or 0.08 percent of the total volume of additional issue.

Financing from Bank VTB. In March 2017, the Company and PJSC Bank VTB signed agreements related to a purchase of 55 billion ordinary shares of the Company (40 billion shares of the new issue and 15 billion shares of quasi-treasury stock) and conclusion of a 5-year non-deliverable forward contract in respect of these shares. In accordance with these agreements PJSC Bank VTB bought 40,000,000,000 shares of the Company during the current share issue and 15,000,000,000 shares of the Company which were held by the Company's subsidiaries.

In accordance with the forward contract, the Company has no obligation to buy back its own shares; for the purposes of final settlement under the forward contract it is envisaged that bank sells the Company's shares. Any difference between bank's income from the sale of the above shares at the end of the forward contract and the forward price is due to be settled in cash between the Company and the bank. The forward price is defined as the purchase cost of the shares increased by the total amount of interests charged less total dividends paid during the contract period.

The agreement will allow the Company to raise additional capital for financing the debt of the Company's subsidiary PAO RAO ES Vostoka and its subsidiaries.

Chairman of Management Board - General Director
of PAO RusHydro

N.G.Shulginov

Chief Accountant of PAO RusHydro

Y. G. Medvedeva

30 March 2017